



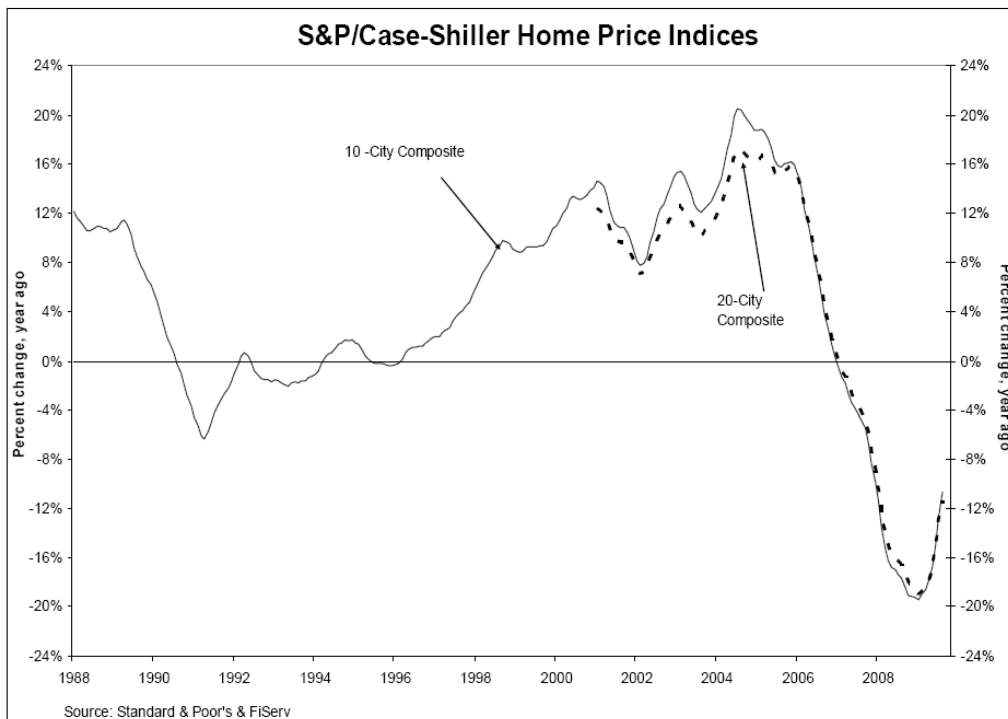
New Developments in Homebuyer Tax Credits

The housing market has been ground zero for this financial crisis. The bursting of the housing bubble sent us into a severe recession, and was a major contributor to the crisis that almost brought down the global banking system last fall.

We're in a vicious cycle at this point -- the fall in housing prices has contributed to the very high unemployment rate we've got, and in turn, high unemployment means that foreclosures are high, and home prices are still declining. In an effort to kickstart the housing market, Congress recently expanded and extended the now confusingly named first-time homebuyer's credit, as one now doesn't need to be a first-time homebuyer to take advantage of this credit.

Status of the Housing Market

The chart below, from Standard and Poor's, graphs the annual change in US home prices using the Case-Shiller index -- the most commonly used index for residential real estate prices. It's quite easy to see that although the rate of decline is improving, house prices are still falling.



Enter the revised tax credit, designed to jumpstart housing sales. The revised credit is part of the Worker, Homeownership, and Business Assistance Act of 2009 signed by the President earlier this month. The Act extends unemployment benefits, changes how businesses can write off their losses, and, relevant to this topic, extends and expands the homebuyer credit.

Current Credit

The current credit was extended through April 30, 2010 (it was due to expire at the end of this month). A home purchase will qualify for the credit if a binding contract is in place by April 30, 2010, and the purchase closes by June 30, 2010. For homes purchased in 2010, taxpayers have the option of claiming the credit on either their 2009 or 2010 return.

Expanded Credit

Here's where the big news is: Congress added a reduced credit, with the same rules as above, available to people who already own a home. If a taxpayer has owned and used the same home as his or her principal residence for five consecutive years of an eight-year period, a subsequent home purchase after November 6, 2009, will qualify for the reduced first-time homebuyer credit. This credit may not exceed \$6,500 (\$3,250 MFS or Married Filing Single).

These are tax credits, not tax deductions. A tax credit is far more valuable than a tax deduction, as a tax credit is a direct dollar-for-dollar reduction of your taxes due.

As with all tax acts, you must pay attention to all the provisions in order to understand when, if, and to what degree you will be able to take advantage of the credit. The following changes were included with this extension/expansion:

- **Adjusted gross income (AGI) limitation:** The AGI limitation was actually increased for purchases after November 6, 2009; the credit now phases out at an AGI in the year of purchase between \$125,000 and \$145,000 (\$225,000 and \$245,000 for MFJ or Married Filing Joint).
- **\$800,000 limit on purchase price added:** No credit is allowed for the purchase of a home after November 6, 2009 if the purchase exceeds \$800,000. *Note:* This is a set limitation, not a phase out limitation.
- **No credit for buyer under age 18:** No credit is allowed unless the buyer is age 18 as of the date of purchase.
- **Buyer who can be claimed as a dependent not eligible for credit:** The credit cannot be claimed by a buyer who is claimed as a dependent of another taxpayer in the year of purchase.
- **Settlement statement required to claim credit:** To claim the credit, the buyer must attach a properly executed copy of the settlement statement to their tax return.
- **Purchase from close relative or family of spouse is not a qualifying purchase:** This change basically adds in-laws and step-children to the definition of a "close relative" limitation included with the previous credit.

- **Purchase date extended through April 2011 for extended duty military, foreign service, and intelligence community workers:** Those on extended duty outside the US for at least 90 days are granted a one-year extension. The purchase of the qualifying home must be complete by April 30, 2011, and recapture is waived in the case of a disposition of home due to official extended duty service.
- **Effective date of changes:** These changes are generally effective for purchases after the date of enactment, which is November 6, 2009.

The following table summarizes the three homebuyer credits that have been available since the housing market crashed, including applicable dates and other criteria; it comes to us courtesy of Western CPE, where I do my annual two-day tax update:

Dates Applicable	4/9/08 - 12/31/08	1/1/09 - 11/6/09	11/7/09 - 4/30/10
Maximum Credit	\$7,500 (\$3,750 MFS)	\$8,000 (\$4,000 MFS)	\$8,000 (\$4,000 MFS)
Maximum Home Price	N/A	N/A	\$800,000
Recapture	Credit is paid back ratably over 15 years unless home is sold or ceases to be personal residence during recapture period	No payback required unless house ceases to be personal residence in 36 months	No payback required unless house ceases to be personal residence in 36 months
AGI Phase Out	\$75,000 to \$95,000 \$150,000 to \$170,000 MFJ	\$75,000 to \$95,000 \$150,000 to \$170,000 MFJ	\$125,000 to \$145,000 \$225,000 to \$245,000 MFJ
First-Time Homebuyer	No ownership in US personal residence during 3 year period prior to purchase of house	Same	Same
Long-Time Resident	N/A	N/A	Prior home used consecutive 5 of 8 years. \$6,500 maximum credit (\$3,250 MFS)

Finally, a note for those of you who are figuring that you'll wait for housing prices to recover before you sell. You may be working with an investor bias called anchoring: the tendency of investors to use some prior price, or benchmark, to determine the right price for an investment. In today's climate, it's easy to anchor your desired selling price to Seattle's 2007 high. After the bursting of the housing bubble, you have to ask yourself if those 2007 prices have relevance today?

-- Karen O'Brien. Posted 11/16/09.