

Housing Credits Given Extended Life for 2009 and 2010

Add these tax credits to your radar for 2009 tax returns.

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New legislation, signed into law in early November, provides significant changes to previously enacted laws associated with first-time homebuyers. This legislation extends and expands coverage of the first-time homebuyer tax credit that was set to expire November 30, 2009.

Last week, the Senate passed a \$24 billion bill by a 98-0 vote that extends and greatly expands coverage of a tax credit associated with the sagging housing market. Under terms of the Worker, Homeownership and Business Assistance Act of 2009, this credit provides significant changes to all prior versions of this tax credit.

Extended Coverage

Already amended by a change inserted into the stimulus package of February 2009, this latest law allows first-time homebuyers to claim a credit if they purchase a home by April 30, 2010 or enter into a binding contract to purchase a home by that date if they close on the home by June 30, 2010. As previously, taxpayers who make qualifying purchases in 2010 will be able to claim the credit on either their 2009 or 2010 tax return. Otherwise, to claim the credit for 2009, the qualifying purchase must be made prior to December 1, 2009.

Expanded Coverage

The amount of the credit expands from up to \$7,500 in 2008 to a maximum of \$8,000. The credit is calculated at 10 percent of the purchase price of the home. Thus, a taxpayer that purchases a home for \$80,000 or more will be eligible for the maximum credit amount. However, the credit is not available for homes costing \$800,000 or more. Unlike the tax credit established by the Housing and Economic Recovery Act of 2008, the new credit no longer requires repayment unless the home fails to remain the principal residence of the taxpayer for three years following the purchase. Apparently, no pro-ration is available and the entire credit would have to be repaid under this circumstance.

Other Changes

Particular attention must be paid to the date of purchase for 2009. Under the prior act, the credit is subject to a phase-out for single taxpayers with modified adjusted gross income between \$75,000 and \$95,000 and for married filing joint taxpayers with modified adjusted gross income between \$150,000 and \$170,000. These income ranges apply to purchases on or before November 6, 2009. For purchases after November 6, 2009, the credit will be phased out for single taxpayers with modified adjusted gross income (AGI) between \$125,000 and \$145,000 and for married-filing-jointly taxpayers with modified AGI between \$225,000 and \$245,000.

Existing Homeowners Tax Credit

A significant addition to this tax act now extends to existing homeowners. According to Senator Johnny Isakson, R-GA, a co-sponsor of this legislation, this addition was necessary to address homebuyers who "trade-up" in their principal residences. To qualify for this credit, taxpayers must have lived in the same principal residence for any five-consecutive year period during the eight-year period ending on the date of purchase of the replacement home. Single taxpayers can claim a credit of up to \$3,250 and married-filing-jointly taxpayers can claim a credit up to \$6,500, based on the same 10 percent of purchase price formula as the first-time homebuyer credit.

General Provisions

In order for these credits to apply, the homes purchased must be the taxpayers' personal residence. These credits reduce the taxpayers' tax liability on a dollar-for-dollar basis. If taxpayers owe no tax liability, the credits are refundable. Form 5405 is used to claim the credit.

Conclusion

Congress is working hard to both strengthen and stabilize a very shaky housing market. Although many economists proclaim the recession to be over, unemployment continues to rise, making such claims to the unemployed workers irrelevant. In order for the housing market to fully recover, these drastic measures may be necessary. However, at a cost of over \$20 billion over the next 10 years, these credits do little more than temporarily prop up a market already at the center of recession. If Congress extends them in perpetuity, like the "cash for clunkers" car rebates, these actions will only provide temporary relief for the housing market. Unless the unemployed find jobs, these credits are painfully and obviously irrelevant. Perhaps Congress should focus on measures designed to ensure jobs remain here in America instead of losing those jobs to overseas markets. Until unemployment returns to more manageable numbers, these temporary fixes are just that: temporary.