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The American Housing Rescue and Foreclosure Prevention Act of 2008

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The **American Housing Rescue and Foreclosure Prevention Act of 2008** was signed by President Bush on 7/30/08. The new law creates a temporary tax credit to help first-time homebuyers. It also creates a temporary property tax deduction for taxpayers who do not itemize. However, it curtails the benefits of the huge \$250,000/\$500,000 exclusion of capital gains from the sale of your main residence.

1. **Temporary Tax Credit for First-time Homebuyers.** The Housing Act creates a new temporary federal income tax credit for first-time homebuyers. First-time homebuyers are taxpayers who never owned a home. It also includes those who did not own a principal residence during the **last three years**. The maximum credit is the lesser of **\$7,500** (**\$3,750** for married filing separately) or **10% of the purchase price** of a principal residence.

The credit is **refundable**. It can be used to offset your entire federal income tax liability with any remaining credit refunded to you. The credit is generally available for principal residence purchased **between 4/9/08 and 6/30/09**. You can even choose to treat a 2009 purchase **as if it happened in 2008** to get your credit sooner in your 2008 Form 1040. The purchase date for a newly constructed home is the date you move in. Purchase of a residence from your spouse, parent, grandparent, child, grandchild, and other **related parties, is not eligible** for the credit. The credit is **phased-out (eliminated)** if your adjusted gross income (AGI) reaches **\$75,000 to \$95,000** for unmarried taxpayers and **\$150,000 to \$170,000** for married filing joint.

Credit Must Be Repaid. But wait, there is a catch: the new credit is really **just a loan** from the government. You must **repay it (without interest) over 15 years** starting with the second year after the year the credit is claimed on your Form 1040. Each year's repayment will be **added to your tax bill** for each year. In addition, if you **sell your home or stop using it as your principal residence** before the credit has been repaid, an **accelerated repayment rule** may apply. If so, the unpaid credit balance must be paid when the triggering event occurs.

2. **Temporary Property Tax Deduction for Non-itemizers.** For 2008 only, a taxpayer who does not itemize can add up to **\$500** (**\$1,000** for married) of **state and local real property taxes** to the normal standard deduction amount.

3. **Unfavorable New Rule for Properties Converted into Principal Residences.** Under current law, you can convert a former rental property or vacation home into your principal residence, live in it for at least two years, sell it, and take advantage of the federal home-gain exclusion privilege of \$250,000 for unmarried individuals and \$500,000 for married joint filers. For sales that occur from 2009, however, an unfavorable new rule can convert a portion of your **gain to be ineligible for the capital gain exclusion**.

4. The **low-income housing tax credit can offset your alternative minimum tax (AMT)** effective 1/1/08.

5. Interest income from certain types of **tax-exempt bonds issued** will **no longer constitute an individual AMT** preference item or a corporate minimum tax adjusted current earnings (ACE) adjustment item (effective 8/1/08).

6. Guarantees of state and local bonds by the Federal Home Loan Bank (FHLB) will no longer cause the interest income from **tax-exempt bonds** to be taxable.

7. A **new Form 1099** information reporting requirements will apply to payments to merchants (EBay and PayPal) that are made via **credit and debit cards** and third-party settlement organizations.

8. Corporations that are eligible to claim 50% first-year bonus depreciation can elect to forego it and instead utilize **R&D and minimum tax credit (MTC)** carryovers equal to 20% of the foregone depreciation (effective for tax years ending after 3/31/08).