



## **HOUSING RESCUE PLAN SIGNED INTO LAW**

On July 30, 2008 the President signed into law a housing rescue plan intended to stem the tide of foreclosures and to shore up Fannie Mae and Freddie Mac. The legislation, the American Housing Rescue and Foreclosure Prevention Act of 2008, has received a mixed reaction. The legislation contains several provisions; some provide tax relief and others increase tax to pay for the tax relief.

### **TAX CREDIT FOR FIRST TIME HOME BUYERS**

Individuals purchasing a new or used home after April 9, 2008 and before July 1, 2009 are eligible for a refundable tax credit of up to \$7,500 for part of the purchase price. The credit is really more like an interest free loan because it must be repaid over 15 years (or less if the principal residence is sold or ceases to be a principal residence). The most important provisions are as follows:

- The amount of the credit is limited to the lesser of \$7,500 or 10% of the cost of the home.
- The credit is reduced if the taxpayer's modified adjusted gross income (MAGI) in the year of purchase exceeds \$150,000 on a joint return (\$75,000 single taxpayer) and is eliminated if the MAGI exceeds \$170,000 on a joint return (\$95,000 single taxpayer).
- The credit is refundable meaning that it will result in a cash refund if it exceeds the taxpayer's income tax.
- The home can be a single family home, townhouse, or condominium.
- The taxpayer must be a first-time homebuyer, that is, neither the taxpayer nor his spouse owned a principal residence in the U.S. during the prior three-year period.
- The taxpayer must either be a U.S. Citizen or a Resident Alien.
- If the home is purchased in 2008 (after April 9, 2008), the credit must be claimed on the 2008 tax return. If it is purchased in 2009 (prior to July 1, 2009), the taxpayer can elect to claim the credit on either his 2008 or 2009 tax return.



## **REAL ESTATE TAX DEDUCTION FOR NON-ITEMIZERS**

Taxpayers who do not itemize their deductions because the standard deduction is larger can now deduct part of their real estate tax in addition to the standard deduction.

- The amount of the deduction is limited to a maximum of \$1,000 (joint return) or \$500 (single return).
- This deduction is available only for 2008.

## **REVENUE RAISING PROVISIONS**

- **Homesale Exclusion Rules Tightened** – Homeowners presently are permitted to exclude as much as \$500,000 of the gain on sale of their residence if they owned the home and lived in it as their principal residence for at least two of the five years prior to the sale. Because of the principal residence requirement, vacation homes or second homes normally do not qualify. However, taxpayers were permitted to convert their second home to their principal residence by living in it as their principal residence for at least two years. The new law requires that taxpayers forfeit part of the \$500,000 exclusion, even if the vacation home is converted to their principal residence. The amount of the exclusion that is lost depends on the length of time the home was used as a vacation home as compared to the total time it was owned.
- **Delayed Implementation of Worldwide Allocation of Interest** – A new law giving taxpayers the right to allocate interest expense between U.S. and foreign sources to increase their foreign tax credit limitation was scheduled to become effective this year. The Act delays the phase-in of this favorable new rule until 2010.
- This legislation also contains REIT changes and low-income housing tax changes which have very limited application to our readers.

We hope that this information is helpful. If you would like more details or have any questions, please call us.

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