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THE HOUSING ASSISTANCE TAX ACT OF 2008

Property Tax Deduction for Non-Itemizers

On July 30, 2008, the President signed into law the "Housing Assistance Tax Act of 2008." Included in the housing incentives of the new law (the Housing Act) is a measure creating a new, temporary property tax deduction for non-itemizers (i.e., for taxpayers who claim the standard deduction rather than itemizing their deductions). Here is a brief overview of this new provision:

- The provision creates a new standard deduction for state and local real property taxes paid by non-itemizers. Since most homeowners who are paying on a mortgage have enough deductions (e.g., mortgage interest and property taxes) to justify itemizing them on their return, this new provision chiefly benefits homeowners who have paid off their homes.
- The deduction is available only for 2008.
- The amount of deduction is as much as \$500 for single filers and \$1,000 for joint filers.

Tax Credit for First Time Home Buyers

The single largest housing tax incentive in dollar terms in the Housing Act is a provision allowing individuals buying their first home to take a tax credit of up to \$7,500 of the purchase price. Qualified homebuyers can subtract the credit amount from their federal income tax when they buy a home and even get a refund if the credit exceeds the tax. However, the first time home buyer is required to pay the credit

back over 15 years. The result is that the credit resembles an interest-free loan that must be repaid to the government.

It is also important to note that "first time home buyer" is an inaccurate term used by the Housing Act to describe the person eligible for the credit. "First time home buyer" is anyone who has not owned a home in the last three years. Here are the details of the new credit:

- The home must be located in the U.S. and must be the taxpayer's principal residence (main home). The taxpayer (and the taxpayer's spouse if married) must not have owned another principal residence in the U.S. in the three-year period before purchasing the new home. Thus, the home does not literally have to be the taxpayer's first home.
- The home must have been purchased from April 9, 2008 through June 30, 2009, inclusive. Purchases from certain related persons and acquisitions by gift or inheritance don't qualify. A home constructed by the taxpayer does qualify if the taxpayer moves in from April 9, 2008 through June 30, 2009.
- A special rule allows taxpayers who purchase a principal residence in the first six months of 2009 to treat the purchase as if made on Dec. 31, 2008. This allows the taxpayer to claim the credit for 2008 rather than 2009.
- The credit is equal to 10% of the price paid for the home, up to a maximum of \$7,500. The \$7,500 maximum credit applies both to individuals and married couples filing a joint

return. A married individual filing separately can claim a maximum credit of \$3,750.

- The credit is phased out for individual taxpayers with income between \$75,000 and \$95,000 (\$150,000 and \$170,000 for married taxpayers) for the year of purchase. Individuals with income over \$95,000 (\$170,000 for married taxpayers) cannot claim the credit.
- The credit is refundable, meaning that households with incomes too low to owe income tax can benefit from it.
- In the second year after purchase, taxpayers who took the credit must start paying back the credit in equal installments over 15 years, with no interest charge. This works as follows. Suppose a first-time homebuyer purchases a home for \$100,000 this coming December and claims the maximum credit of \$7,500 on his 2008 tax return. He would then be required to pay back \$500 (one-fifteenth of the credit) on his tax return for 2010 and for each of the following 14 years, through 2024.
- If the taxpayer sells the home (or the home ceases to be the principal residence of the taxpayer or the taxpayer's spouse) before complete repayment of the credit, any remaining credit is due on the tax return for the year in which the home is sold (or ceases to be the principal residence). If the home was sold at a loss to an unrelated person,

repayment of the remaining credit is forgiven to the extent of the loss.

NEW TELEPHONE NUMBER FOR OUR NASHVILLE, GEORGIA OFFICE

Effective July 15, 2008, the telephone number for the Nashville, Georgia office of Conner, Hubbard and Company, CPAs is 229-686-9419.

It's easy to make a buck. It's a lot tougher to make a difference.

It is always helpful to learn from your mistakes because then your mistakes seem worthwhile.

*This Newsletter as well as previous Newsletters can be found at www.ConnerHubbard.com.
Referrals are greatly appreciated.*



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