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**EXTENSIONS OF SOME TAX BENEFITS**

The “Tax Extenders and Alternative Minimum Tax Relief Act of 2008” (the 2008 Extenders Act), which was enacted on October 3, 2008, provides extensions for several popular tax breaks and the addition of several new relief provisions, including disaster area tax relief. An overview of the key provisions in the new legislation is as follows:

- A. ***Deduction of state and local general sales taxes.*** The option to deduct state and local general sales taxes is extended through 2009.
- B. ***Qualified tuition deduction.*** The above-the-line tax deduction for qualified higher education expenses is extended through 2009.
- C. ***Teacher expense deduction.*** The provision allowing teachers an above-the-line deduction for up to \$250 for educational expenses is extended through 2009.
- D. ***IRA rollover provision.*** The provision allowing qualified taxpayers to make tax-free contributions from their IRA plans to qualified charitable organizations is extended through 2009.
- E. ***Additional standard deduction for real property taxes.*** The standard deduction for real property taxes for non-itemizers is extended through 2009.
- F. ***15-year straight-line cost recovery for qualified leasehold, restaurant, and retail improvements.*** The 15-year write off for qualified leasehold, restaurant, and retail improvements is extended through 2008.

G. ***Mortgage forgiveness exclusion.*** Cancellation of debt usually gives rise to taxable income. However, an exclusion to this general rule was inserted into the Internal Revenue Code in 2006 relating to mortgage forgiveness on a principal residence.

Any debt forgiveness income resulting from a discharge (in whole or in part) of “qualified principal residence indebtedness” is excluded from gross income. “Qualified principal residence indebtedness” is debt that has been used to acquire, construct, or substantially improve the taxpayer’s principal residence. The debt must have been secured by the residence. This exclusion applies where taxpayers restructure their acquisition debt on a principal residence or lose their principal residence in a foreclosure.

Under pre-2008 Economic Stabilization Act law, the mortgage forgiveness exclusion applied to indebtedness discharged before January 1, 2010. The 2008 Economic Stabilization Act extends the mortgage forgiveness exclusion for three additional years, so that it applies to indebtedness discharged before January 1, 2013.

H. ***Credit for solar panel installation.*** A “qualified solar electric property expenditure” is an expenditure for property that uses solar energy to generate electricity for use in a dwelling unit. The dwelling unit must be used as a residence by the taxpayer. The pre-2008 Energy Act law limited the credit on “qualified solar electric property expenditures” to \$2,000.

The 2008 Energy Act eliminates the \$2,000 limitation on the credit allowed for a tax year for qualified solar electric property expenditures.

An illustration best illustrates the significance of this change. Suppose during 2008, an individual spends \$20,000 on qualified solar electric property. The credit allowed for those expenditures is limited to \$2,000.

If the individual makes those same expenditures in 2009, no limit applies, and the credit allowed is \$6,000 (30% x \$20,000).

The new law extends the credit for an additional eight years (through 2016), and the tax credit is made applicable against the alternative minimum tax (AMT). Under pre-2008 Energy Act law, an individual could not use the credit to reduce his income tax below the level at which the AMT kicked in. The new law allows the credit to be used to offset the AMT.

This change is effective for the tax years after 2008 and through 2016.

**Reminder for first-time homebuyers**

With reduced housing prices and many willing sellers, now might be the time for first-time homebuyers to buy a house.

The 2008 Housing Act added a new refundable tax credit for “first-time homebuyers.” The amount of the credit is the lesser of \$7,500 or 10% of the home's purchase price. The credit is phased out for taxpayers

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with modified AGI between \$75,000 and \$95,000 (\$150,000 and \$170,000 for joint filers).

The credit is recaptured ratably over 15 years with no interest charge, beginning in the second year after the home is purchased.

The credit applies to principal residences purchased after April 8, 2008, and before July 1, 2009.

The first-time homebuyer credit is refundable. For example, suppose a first-time homebuyer purchases a principal residence in 2008 and claims a \$7,500 credit. The taxpayer's tax liability for 2008, before application of the credit, is \$6,000.

The credit reduces the taxpayer's tax to zero. In addition, the taxpayer will receive a \$1,500 refund.

**Election to treat 2009 purchase as made in 2008**

Taxpayers who purchase a residence after December 31, 2008, and before July 1, 2009, may elect to treat the purchase as made on December 31, 2008. Making this election allows taxpayers to claim the credit on their 2008 tax returns.

**First-time homebuyer**

The term “first-time homebuyer” means an individual who had no present ownership interest in a principal residence during the three-year period ending on the date of the purchase of the principal residence to which the credit applies. If the individual is married, neither the individual nor his spouse may have had a present ownership interest in a principal residence during that three-year period.