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What the Housing and Economic Recovery Act of 2008 Means for You

by Carla L. Davis

Good news has made its way into the real estate arena this summer -- in the form of the Housing and Economic Recovery Act of 2008. What does this Act mean for you?

It means a lot if you are in the market to be a first time homebuyer -- up to a \$7,500 tax credit if you purchase before July 1, 2009. And there's more good news. First time homebuyers is defined as, "a buyer who has not owned a principal residence during the three-year period prior to the purchase."

This means for all those markets that have started to stabilize, now could be a great time to buy.

Let's take a closer look at just what this new incentive entails.

In order to receive the tax credit you must have purchased your home -- single-family detached, townhouses and condominiums, manufactured homes, and houseboats -- between April 9, 2008 and July 1, 2009. Purchase being the closing date.

You must also meet income requirements. But even if you are over the modified adjusted gross income level of \$95,000 (single) or \$170,000 (married), you may be able to receive partial tax credits. The full amount of credit is available for individuals with adjusted gross income of no more than \$75,000 (\$150,000 on a joint return). This phases out above those caps (\$95,000 and \$170,000, respectively).

And getting started with the tax credit program is simple. You claim the tax credit on your federal income tax return. That's it. It doesn't require any other confusing, fancy paperwork.

You can even access the funds quick -- instead of waiting to file your return. The NAHB reports, "Buyers who believe they qualify for the tax credit are permitted to reduce their income tax withholding. Reducing tax withholding (up to the amount of the credit) will enable the future home buyer to accumulate cash by raising his/her take home pay. This money can then be applied to the downpayment. Buyers should adjust their withholding amount on their W-4 via their employer or through their quarterly estimated tax payment. IRS Publication 919 contains rules and guidelines for income tax withholding."

What's tricky about this Act -- its a tax *credit*, meaning that you must repay the government either over the next 15 years (no interest charged), or when you sell the home, if there were sufficient capital gains from the sale.

The NAHB gives this example, "A home buyer claiming a \$7,500 credit would repay the credit at \$500 per year. The home owner does not have to begin making repayments on the credit until two years after the credit is claimed. So if the tax credit is claimed on the 2008 tax return, a \$500 payment is not due until the 2010 tax return is filed. If the home owner sold the home, then the remaining credit amount would be due from the profit on the home sale. If there was insufficient profit, then the remaining credit



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(U.S. Weekly Averages)

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payback would be forgiven."

So why do you have to repay this credit? Because this is just that -- a credit, not a deduction. The government's hope is that this credit will stimulate the housing market ... and in turn the economy. By providing first-time home buyers with a little financial boost -- remember it's interest free -- it could do just that.



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