



TAX ALERT

New Housing Act Provides Tax Relief for Individuals and Businesses

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The *Housing and Economic Recovery Act of 2008* is designed primarily to help troubled borrowers and their lenders. In addition, it also provides incentives and tax breaks for certain homebuyers, homeowners and businesses. This Alert briefly summarizes some of the provisions.

Credit for First-Time Homebuyers

A refundable credit equal to 10% of the purchase price of a principal residence is now available to first-time homebuyers. Under the Act, a first-time homebuyer is someone who has had no ownership interest in a principal residence in the United States during the prior three-year period. There are certain other limitations as well.

This tax break is generally available for purchases on or after April 9, 2008, and before July 1, 2009. The maximum credit is \$7,500 and starts to phase out for joint filers with adjusted gross incomes (AGIs) exceeding \$150,000 (\$75,000 for single filers). It's completely eliminated for joint filers with AGIs exceeding \$170,000 (\$95,000 for single filers). Note, however, that the

taxpayer must repay the credit received, generally over a 15-year period but with no interest. So the break is really more of an interest-free loan from the government than a genuine tax credit.

Additional Standard Deduction for property taxes

For 2008, the standard deduction for married couples filing jointly is \$10,900 (\$5,450 for singles). The Act provides an additional standard deduction equal to the lesser of 100% of state and local property tax paid or \$1,000 for joint filers (\$500 for single filers).

This tax break will benefit many older homeowners who are close to paying off (or have already paid off) their mortgages. Because such taxpayers have little or no mortgage interest expense, they often don't have enough deductible expenses to exceed the standard deduction and warrant itemizing. As a result, before the Act, they received no federal tax break for their property tax costs. For taxable years beginning in 2008, however, they can offset some or all of these costs with the additional standard deduction.



Enhanced Use of AMT and R&D Credits

Corporate taxpayers can take advantage of a provision that allows them to accelerate their alternative minimum tax (AMT) and research & development (R&D) credits in lieu of taking the bonus depreciation available under the *Economic Stimulus Act of 2008*. The bonus depreciation amount is equal to 50% of an eligible asset's basis, generally if the property is acquired this year.

Under the Act, corporations that elect to accelerate AMT or R&D credits will enjoy a credit limit increase equal to 20% of the bonus depreciation for which they are otherwise eligible.

The allowable credit is capped at the lesser of \$30 million or 6% of an amount that is determined using a formula based on certain prior R&D credit carryforward amounts and certain minimum tax credits. The provision is generally effective for property placed in service after March 31, 2008 and before Jan. 1, 2009.

Reduced Home Sale Exclusion

The home sale gain exclusion won't apply to the extent that it relates to the nonqualified use period of a residence. Normally joint filers can exclude up to \$500,000 (\$250,000 for single filers) of gain on the sale of a principal residence if they meet certain tests, including a use test. Generally, the nonqualified use period is any period after Jan. 1, 2009, that the

property is not used as the taxpayer's principal residence.

The change will affect taxpayers such as those who own a vacation home or rental property, convert it to use as a principal residence for the required time, and then sell it at a gain. Part of the gain in these situations will now be taxable.

Credit Card Information Reporting

Starting in 2011, The Act requires banks and credit card companies to report to the IRS a merchant's gross credit card receipts. This new reporting will likely increase compliance with the tax law among business taxpayers. The IRS will now be able to compare the merchant's credit receipts to the revenue reported on the merchant's business tax return and more readily identify any potential discrepancies.

The above represents a summary of the new rules and does not address all of the details contained in the new legislation. For clarification or more information on these and other tax matters, contact your W&G tax advisor at 732-846-3000.

Any U.S. tax advice contained in this communication is not intended or written to be used, and cannot be used, for the purpose of avoiding tax penalties that may be imposed on the taxpayer.