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Credit for First-Time Homebuyers Extended and Expanded

On February 17, 2009, the American Recovery and Reinvestment Act of 2009 was signed into law. The new law states, if you buy a house in 2009 before December 1, you may be eligible for the newly expanded First-Time Homebuyers Credit. This credit, which was to expire June 30, 2009, has been extended through November 30, 2009, and has been made significantly more attractive.

You can now claim $8,000 (up from $7,500) or 10 percent of the purchase price, whichever is lower. If you are married and file a separate return, however, the most you can claim is $4,000 (up from $3,750). As under prior law, the credit is phased out for taxpayers with adjusted gross income (AGI) over $75,000 ($150,000 for married taxpayers filing jointly).

Perhaps more significant is the fact that the credit is no longer treated as a zero-interest loan that must be paid back over 15 years. Instead, the credit needs to be paid back only if, within 36 months of purchasing the home, you either sell it or you (and your spouse) stop using it as your principal residence.

Comment: Even though the credit is available for houses purchased in 2009, you can claim the credit on your return in 2008 by electing to treat the purchase as occurring in 2008. This election will not affect the application of the 15-year repayment provision. It will not apply to purchases in 2009 even if they are treated as occurring in 2008 for purposes of claiming the credit in 2008. If you already filed your 2008 income tax return, we can prepare an amended return for you.

The credit can now be claimed for the purchase of a residence financed by the proceeds of a mortgage revenue bond.

For residents of Washington, D.C., this credit is now the default credit, instead of the $5,000 credit solely for D.C. first-time homebuyers. Under the prior law, D.C. homebuyers were entitled to the D.C. credit, not the first-time homebuyer credit. However, no first-time homebuyer credit is available to any taxpayer who claimed the D.C. homebuyer credit in any prior year.

Tax on Purchase of New Vehicle

Starting on February 17, 2009, both itemizers and non-itemizers are allowed a deduction for sales and excise taxes incurred on the purchase of a new motor vehicle, motorcycle, or motor home during 2009. Motor vehicles include passenger vehicles, light trucks, and SUVs. If you are an itemizer, the new law expands the definition of deductible taxes to include qualified motor vehicle taxes, which are state or local sales or excise taxes imposed on the purchase of a qualified motor vehicle. Until now, you generally could deduct these taxes only if you elected to deduct state and local sales taxes in lieu of state and local income taxes- and even then, only certain sales taxes were deductible.

If you are a non-itemizer, the new law adds a new motor vehicle sales tax deduction to the standard deduction.

Comment: For both itemizers and non-itemizers, the deduction can be claimed in computing both regular tax and alternative minimum tax liability.

The deduction is not without limitations. First, the amount of tax you can deduct is limited to the tax on the first $49,500 of the purchase price. In the case of a car, truck, SUV, or motorcycle, the gross vehicle weight rating must not exceed 8,500 pounds. In addition, the deduction is phased out for taxpayers with modified adjusted gross income (MAGI) between $125,000 and $135,000 ($250,000 and $260,000 in the case of a joint return). Finally, the increased standard deduction is not available if you make the election to deduct sales tax rather than income taxes for the year.

Comment: A proposed deduction for car loan interest was not included in the final version of the Act.

Qualified Tuition Programs (section 529 Accounts)

Distributions for qualified tuition programs (Section 529 accounts) are tax-free if they are used to pay a beneficiary's qualified educational expenses. Other distributions are included in the beneficiary's income and are subject to a penalty.

In general, qualified educational expenses are tuition, fees, books, supplies, and equipment required for enrollment or attendance at an eligible education institution, certain expenses of special-needs beneficiaries, and room and board expenses for students enrolled at least half time. However, for 2009 and 2010, the new law expands the definition of qualified educational expenses to include the purchase of computer technology or equipment, as well as Internet access and related services, if they are to be used by the beneficiary and the beneficiary's family during any of the years the beneficiary is enrolled at an eligible educational institution. These expenses may include expenses for computer use. However, the expansion does not apply to expenses for software design for sports, games, or hobbies unless it is primarily educational in nature.

Unemployment Compensation

In general, unemployment compensation is included in gross income for Federal tax purposes. However, under the new law, you can exclude up to $2,400 in unemployment compensation you receive during 2009. Amounts in excess of $2,400 remain fully taxable.

If you would like more advice about these benefits, please call Goodman & Company, CPAs, 610-253-2745.

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