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EXTENDED HOMEBUYER CREDITS & JOBLESS BENEFITS

New federal actions aid the real estate sector and the unemployed.

provided by Frank DeMaio

After unanimous passage in the Senate and a 403-12 passage in the House of Representatives, President Obama signed H.R. 3548 into law on November 6. The bill extends and expands a key tax credit for homebuyers while also offering more help for those out of work.^{1,2}

The \$8,000 credit for “first-time” homebuyers continues. This tax break is now extended until May 1, 2010. If you have never owned a home or haven’t owned a home in the previous three years, you are considered a “first-time” buyer and therefore eligible for the credit (it is a credit of up to \$8,000, by the way). You must sign your purchase agreement before May 1, 2010 and close the transaction before July 1, 2010 to qualify for this tax break.³

The \$6,500 tax break for move-up buyers. Okay, maybe you aren’t a “first-time” buyer. You may still qualify for this new real estate credit. Have you lived in your current home for more than five consecutive years? You may be eligible for a credit of up to \$6,500 if you move out of that home and buy another. Again, you have to sign your purchase agreement before May 1 and close before July 1 to get the tax break.³

Worth noting: BusinessWeek.com contacted Sen. Chris Dodd’s office (the Connecticut lawmaker chairs the Senate Banking Committee) and received word that move-up buyers can qualify for this \$6,500 credit even if they have signed a purchase contract prior to November 6, provided the purchase closes before July 1.⁴

Does everyone qualify for these credits? Not quite. They phase out for individuals with adjusted gross incomes of more than \$125,000 a year and couples with AGI of more than \$225,000 a year. (The old phase-outs respectively kicked in at \$75,000 and \$150,000. These higher phase-outs mean that the credit can now help an additional segment of the housing market.)⁵

You can’t buy a vacation home and claim one of these credits - they only apply to principal residences. In fact, the home you buy has to have a sale price of \$800,000 or lower.⁵

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What will this do for the economy? “Every economist will tell you we have to steady the housing market before the economy will turn around,” Sen. Dodd expressed on November 5. “We can’t afford to let this tax credit expire now.” Respected Moodys.com economist Mark Zandi agrees, saying that “from a macroeconomic perspective, nothing is more important than stabilizing housing values.” Zandi thinks that the \$8,000 credit has led to 400,000 additional home sales in 2009. On the other hand, Dean Baker, the co-director of the Center for Economic and Policy and Research, questions why the extension is necessary: “For the most part, you’re just giving people money for something they would have done otherwise.” The Joint Committee on Taxation estimates that extending these credits into 2010 will cost \$10.8 billion across the next decade.^{5,6}

An extension of unemployment benefits. H.R. 3548 - sponsored by Rep. James McDermott (D-WA) - additionally extends state jobless benefits by up to 20 weeks. This will happen as a result of another extension - an extension of the federal unemployment tax on employers until June 30, 2011.⁵

If you are one of nearly two million Americans whose jobless benefits are set to run out at the end of 2009, this extension will help you. Your benefits will last at least another 14 weeks into the new year - in fact, they will last for another 20 weeks if you live in a state where the unemployment rate exceeds 8.5%. Have your unemployment checks already stopped? You may reapply for benefits.⁵

A chance for companies to convert losses into cash. What? Really? Yes. There is one provision of the new legislation that many have overlooked: it widens the window of time on the net-operating loss carryback. It lets all businesses apply losses from either 2009 or 2008 to any five years prior to 2008. So business owners, by virtue of the new legislation, have the potential for an IRS refund on the taxes they paid for the five years prior to 2008. There are two asterisks here. One, refunds for taxes in the fifth year of the carry back shrink by 50%. Two, any business that received TARP funds can’t take advantage of this tax break.⁷

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Citations.

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