

President Signs Housing and Economic Recovery Act

Recently, President Bush signed the Housing and Economic Recovery Act of 2008. Generally, this bill was designed to help stabilize the housing market and provide relief to certain homeowners and mortgage giants Fannie Mae and Freddie Mac. But it also provides incentives and tax breaks for certain homebuyers, homeowners, businesses and real estate investors.

Key Relief for Individuals:

- 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. A first-time homebuyer is defined to be someone who hasn't owned their principal residence within the three years preceding the new home purchase.

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). The taxpayer must repay the credit, generally over 15-years, making it more like an interest-free loan.

- Additional standard deduction for property taxes. For 2008, the standard deduction for married couples filing jointly is \$10,900 (\$5,450 for singles). The Housing 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 benefits 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.

Key Relief for Businesses:

- 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. Eligible property includes tangible property with a recovery period of 20 years or less, computer software purchased by the business, water utility property, and qualified leasehold improvement property.

Under the Housing 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. (Credits can be more valuable than depreciation deductions because they reduce your tax bill dollar-for-dollar, rather than just reducing the amount of income that is taxed.)

The allowable credit is capped at the lesser of \$30 million or 6% of an amount that is determined using a somewhat convoluted formula based on certain prior R&D credit carry-forward amounts and certain minimum tax credits. The provision is generally effective for property placed in service after March 31, 2008, (so long as no written purchase contract existed at that time) and before Jan. 1, 2009. In some circumstances, though, the deadline is extended and the credit will be available for assets placed in service as late as Dec. 31, 2009.

The act also contains provisions that may affect real estate investors and developers. For example, it expands the availability of certain low-income housing tax credits, simplifies the rules for tax-exempt housing bonds and provides some extensive reforms related to Real Estate Investment Trusts (REITs).

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