

# Understanding housing tax credits

There's upside to going green, doing short sale

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As we move further into tax season, Treasury and IRS employees have been busy filling in the missing pieces on all of the new tax laws that were passed as part of the recent stimulus package.

When it comes to real estate, the rules are at best confusing. Let's shed a little compact fluorescent light on the subject:

## **2008 \$7,500 tax credit vs. 2009 \$8,000 tax credit**

If you were a first-time buyer who purchased a home after April 8, 2008 through the end of the year, you might have realized that you could get a \$7,500 tax credit on your 2008 tax return. This is a nonrefundable tax credit, which means that even if you don't pay \$7,500 in taxes you'll still get that much in the way of a refund, provided you meet other qualifying details, according to Mark Luscombe, principal analyst for the tax and accounting group at CCH.

However, the 2008 \$7,500 tax credit must be paid back in \$500 equal installments over 15 years, which means that this tax credit effectively functions as a zero-interest loan. (Luscombe said the fine print in the new law says that if the taxpayer dies, the rest of the payback is forgiven. It's unclear whether both homeowners have to die if the property is owned jointly -- or just one of the homeowners.)

If you chose to close on Dec. 31, 2008, rather than Jan. 2, 2009 (perhaps to be able to itemize the interest and points on your 2008 tax return), you may be kicking yourself. The recently signed stimulus bill took the \$7,500 tax credit and turned it into an \$8,000 tax credit -- one that doesn't need to be repaid, Luscombe said.

But there are some wrinkles that require you to pay attention. To qualify for the \$8,000 tax credit, you must earn less than \$150,000 in adjusted gross income for couples filing jointly. Also, you must stay in the house (assuming it's your primary residence) for three years or there may be some payback requirement, according to Luscombe. (He's unclear how the IRS would be able to follow up, and some of the regulations and filing requirements aren't fully explained at the moment.)

The \$8,000 first-time-buyer credit is good only for homes purchased by first-time buyers (or anyone who hasn't owned a home in the last three years) from Jan. 1, 2009 through Dec. 1, 2009 -- so don't wait to close in December or you'll miss out.

Luscombe said you can elect to take the credit on your 2008 taxes. But if you bought your house in 2009, you'll be able to get only a \$7,500 tax credit. If you wait to claim the credit on your 2009 tax return, Luscombe said you'll get the full \$8,000.

"I'm not sure if Congress intended it to be written that way, but that's the way they wrote (the law). It might make some sense because of the way the IRS has its form," Luscombe added.

## **Going Green? Take a Tax Credit**

The stimulus package eased requirements on energy tax credits. The \$500 lifetime tax credit for building improvements has been increased to \$1,500 for such improvements as the installation of energy-efficient windows, insulation, doors and mechanical systems.

In addition, you can take a 30 percent tax credit for every dollar you spend on things like solar heaters, fuel cells and heat pumps, Luscombe explained. The individual limits on particular expenditures have mostly been eliminated.

## **Foreclosure and Short-Sale Forgiveness**

For those who are going through foreclosure or a short sale, where the house is selling for less than the amount owed on the mortgage, the forgiven debt will not be taxed as income through 2012.

"Up to \$2 million of mortgage debt on the principal residence that has been forgiven can be excluded from income," Luscombe explained. "Taxpayers do not have to put it on their tax form," even if the lender has sent an IRS Form 1099.

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