

President signs the “Housing and Economic Recovery Act of 2008”.

On Wednesday, July 30, 2008 President Bush signed the Housing and Economic Recovery Act of 2008. This originated as a result of the major slowdown in housing sales, rising unemployment numbers and weakness in the credit market. Below is a summary of the significant tax highlights. The tax provisions listed below are only a portion of the housing bill which covers many different areas.

First-Time Homebuyer Credit. This credit is effective for homes purchased on or after April 9, 2008 and before July 1, 2009. It is a temporary, refundable tax credit equal to 10% of the purchase price of a home, up to \$7,500. This credit must be repaid in equal installments over 15 years starting 2 years after the home is purchased.

Property Tax Deduction for Non-itemizers. Property owners who do not itemize but pay state and local real property taxes can take an additional \$1,000 standard deduction for 2008 only.

1099 reporting for credit card receipts. Under the new law, banks and other processors of credit and debit cards will be required to report a merchant’s annual gross card receipts to the IRS. A de minimis exception applies if gross transactions do not exceed \$20,000 or the number of transactions do not exceed 200.

Reduced home sale exclusion amount. The gain from the sale of a principal residence home will no longer be excluded from gross income for periods that the house was not used as the principal residence, such as rental or vacation property. This applies to home sales after December 31, 2008. The reduction of the exclusion will be calculated based on a proportion of time that the home was used as other than the taxpayer’s principal residence to the total time owned.

Low-Income Housing Tax Credit. This gives state and local housing agencies authority to issue tax credits for the acquisition, rehabilitation or construction of lower-income rental housing. The credits are awarded to developers of qualified projects. The credit is claimed over a 10 year period.

Tax-Exempt Housing Bonds and Mortgage Revenue Bonds. The bonds issued by state and local governments fund the acquisition, construction and rehabilitation of affordable housing. Interest earned on these bonds is exempt from federal tax. The new law temporarily expands the mortgage revenue bond program to permit the refinancing of existing subprime loans.

Real estate investment trust (REIT) reforms. A REIT is a corporation or trust created under state law that elects to be taxed as a REIT. A REIT corporation must follow strict requirements. The new law also allows corporations to use accumulated alternative minimum tax (AMT) and research and development (R&D) credits by electing not to claim the special 50% bonus depreciation.