J.A. HUTH & ASSOCIATES, INC.

Account~ability

Current Tax Updates

September 2008

President's Message

As fall approaches you can feel change in the air. Each of our presidential candidates are promising changes and congress has just passed down a few changes of their own. This newsletter will highlight a few of those changes we felt would most interest you.

Fall is also a time when many of us get back into our regular routines. I'd like to suggest that a review of your financial situation be a part of that fall routine. Please give us a call. We would love to assist you!

Julie A. Huth

Highlights of the "The Housing Assistance Tax Act of 2008"

In the coming tax season, many of you may hear about the new "First-Time Homebuyer Tax Credit" and a "property tax deduction for non-itemizers." These are both part of the Housing Assistance Tax Act of 2008 that was passed by Congress.

The **"First-Time Homebuyer Tax Credit"** is a credit initially, but the credit becomes an interest-free loan that must be repaid in equal installments over 15 years. Here are some of the highlights of the "credit."

Who Qualifies:

- A "first-time homebuyer" is a person that has not had an ownership interest in a principal residence during the 3-year period before the purchase of a home. Renters who own a vacation home can qualify if they have not owned a principal residence during the 3-year period.
- If you are married filing jointly, you cannot claim the credit if you have an AGI over $170,000 and a phaseout of the credit begins at $150,000. If you are single, your AGI cannot be over $95,000 and a phaseout begins at $75,000.
- The home must be your principal home.

When does the property qualify?

- The home must be purchased after April 8, 2008 and before July 1, 2009. The credit is disallowed if the home is sold before the close of the tax year.
- Title of the property must officially pass to the homebuyer. The property cannot be purchased from certain relatives and "certain basis rules" must be satisfied.
- If the home is purchased in 2009, taxpayers can elect to amend their 2008 tax return to claim the credit. Keep in mind, this will accelerate the repayment period (discussed later).

How much is the "credit"?

- The credit is the <u>smaller</u> of 10% of the purchase price of a home *or* $7500 for both married filing joint and single filers ($3750 for married filing separately).

How is the credit repaid?

- Repayments start 2 years after the year the home is purchased. After two years, the taxpayer's federal income tax liability is increased by 6 2/3 % of the original credit amount. To illustrate, if a taxpayer received the maximum $7500 credit and claimed the credit in 2008, in 2010 their federal tax liability would increase by $500 for the next 15 years.
- If the taxpayer sells the home before the credit is paid, the full amount of the credit becomes due in the year of the sale. This is called a "recapture acceleration". There are many exceptions to the recapture, these include: the amount due cannot exceed the gain on the sale of the home; there is no recapture if the taxpayer dies; the recapture is not accelerated if the taxpayer acquires a new principal residence within two years or if the residence is transferred to a former spouse (in this case, the spouse who now owns the home is responsible for all regular and accelerated payment rules).

Moving on, the "**property tax deduction for non-itemizers**" is a benefit for those whose itemized deductions do not exceed the standard deduction, but are homeowners. This is an important issue to taxpayers without dependents that have paid off their mortgage. Available <u>only for 2008</u>, taxpayers can increase their standard deduction by the *lesser* of:

1. $1000 married filing joint, $500 for all other filing statuses, or
2. The amount of real estate taxes paid during the year.

This temporary deduction is in addition to the standard deduction so it does not change above-the-line AGI, but it will benefit many taxpayers.

Something else to keep in mind is that the credit and property tax deduction apply to the federal tax return and not the state tax return. The federal tax forms that will apply have not been issued as of the printing of this newsletter.

Charitable Contributions

Congress will keep the tough substantiation rules for cash and noncash donations that itemizing taxpayers are allowed to deduct on Schedule A.

All cash contributions must have a bank record *or* written communication from the charity indicating the date, amount of donation, and the name of the charity.

As for non-cash donations, you must have a receipt from the charitable organization for contributions of less that $250. Non-cash donations between $250 and $500 must have a written acknowledgement from the charity, and for contributions of $501 to $5000, a written acknowledgement *and* Form 8382, Noncash Charitable Contributions, must be filed with the tax return. For donations over $5000, a qualified appraisal is required.

The written acknowledgements and receipts are for the taxpayers files only and will be used in case of an audit.

Important information for Single Member LLC's

If you are a single member Limited Liability Company and you have payroll, the federal government will be issuing an additional EIN number in your company's name. This number is to be used for the submission of federal payroll forms. This includes any weekly, monthly, quarterly and yearly federal payroll forms. If you receive this number, please let us know.

Another tax season is quickly approaching! We look forward to seeing everyone. Please contact us with any of your questions. We would be happy to help you in any way that we can.