

Homebuyer Tax Credit Renewed, Military Get More Time

USAA FINANCIAL SERVICES



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NEW federal law extends and expands upon a substantial tax credit for homebuyers, to include military members stationed overseas or on active duty for more than 90 days in 2008 or 2009.

The new program also extends the deadline to put a contract on a home to April 30, 2010, and gives additional leniency to military members.

The earlier version of the stimulus, in effect since February 2009, offered an \$8,000 tax credit for first-time homebuyers and buyers who hadn't owned a home in the previous three years. The new version is far more inclusive. It keeps the original provisions in place and introduces a \$6,500 tax credit for any homebuyer who has owned and lived in their home for five consecutive years at any time within the last eight years.

A Big Chunk of Change

It may not justify a spontaneous relocation, but the tax credit could be a savings boon if you're already considering a move. Because tax credits represent a dollar-for-dollar reduction of your tax liability, they're much more valuable than tax deductions. For example, if your new home is worth \$80,000 or more, you are able to reduce your taxes by \$8,000, a sizeable savings.

Better yet, the credit is refundable, which means you can actually receive money back from the government if the credit exceeds your tax bill for the year.

Know the Nitty Gritty

As with all tax credits, certain terms and conditions apply:

Who Qualifies: First-time homebuyers and those who have not owned a home in the last three years qualify for a credit of up to \$8,000. Existing homeowners who have lived in their homes for more than five years qualify for a credit of up to \$6,500.

Military Exceptions: Active duty military members who have been stationed overseas or have been on active duty for more than 90 days in 2008 or 2009 may qualify for an extended deadline through June 30, 2011, to buy a home

upon their return to the United States. And, military personnel are not required to repay the tax credit if required to move by military order.

Home Restrictions: Both credits apply only to homes purchased for \$800,000 or less. Also, the new house must be your primary residence, which excludes vacation homes from qualifying.

Deadlines: The house must be under contract by April 30, 2010. And you must complete the closing process by June 30, 2010.

Income Limits: The full credit is available for single filers with income of \$125,000 or less (\$225,000 or less for joint filers). The credit is phased out at higher income levels.

Filing Guidelines: Taxpayers can claim the credit on purchases completed in 2010 on their 2009 income tax returns.

Moving Restrictions: The homebuyer must stay in the new house for 36 months after purchase, or be required to repay the tax credit.

For complete details about the extended homebuyer tax credit, visit the IRS website.

A Better Time to Buy?

As he surveys the American housing market, USAA Certified Financial Planner J.J. Montanaro points to several conditions that make this a much more attractive time to buy a home than just a few years ago.

Lower prices: "Now that the real estate bubble has burst, buyers in many markets have a chance to nab homes at deep discounts from their former prices," said Montanaro.

Lower mortgage rates: With 30-year fixed mortgage rates hovering around 5 percent as of Nov. 13, 2009, mortgage payments have become much more affordable. Montanaro counsels members to keep their total housing cost below 28 percent of their gross monthly income. This would include mortgage payment, taxes and mortgage insurance.

Tax breaks: "In addition to the latest homebuyer tax credits, homeowners can also take advantage of credits for installing energy-saving enhancements," said Montanaro. This 30 percent credit — for improvements like new windows, furnaces and air conditioning systems — has a maximum \$1,500 value. **AF**