

Dear Client,

In hopes of spurring the housing industry, the recently enacted "American Recovery and Reinvestment Act of 2009" (the 2009 economic stimulus act) includes an enhanced tax credit for first-time homebuyers. Here are the details.

You may remember that last year's Housing Act included a tax credit giving first-time homebuyers up to a \$7,500 (actually, 10% of the purchase price or \$7,500, whichever is less) credit for buying a home between April 8, 2008, and July 1, 2009, with single taxpayers with incomes up to \$75,000 and married couples with incomes up to \$150,000 qualifying for the full tax credit. However, despite high hopes that the credit would be effective in getting people to buy homes and thereby reduce the excessive inventory on the market, the credit is widely acknowledged to have failed in its objective. The problem, according to realtors and industry officials, was that buyers were turned off by the odd way the credit worked. While the credit functioned initially like other tax credits, reducing a person's tax liability on a dollar-for-dollar basis, it was unusual in that, unlike other federal tax credits (for example, the child credit), the credit for first-time homebuyers had to be paid back to the government ratably over a period of 15 years (or earlier if the house is sold). So, as a practical matter, the credit was the equivalent of an interest-free loan from the government. It was the payback requirement that many in the industry felt kept potential buyers on the sidelines. Now, Congress has beefed up the credit in renewed optimism of enticing more first-time homebuyers to take the plunge. First and foremost, the new legislation scuttles the repayment requirement for homes purchased on or after January 1, 2009. The new law also extends the credit through the end of November 2009, and bumps up the maximum credit amount from \$7,500 to \$8,000. However, the new law retains the recapture provisions if the house is sold within three years of purchase.

I hope this information is helpful. If you would like more details about this or any other aspect of the new law, please do not hesitate to call our office.

Very truly yours,

RADKE & MOHRHAUSER, LLC