

# Tax Tips

Keeping you informed...

Winter  
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## First-time Homebuyer Credit

You don't necessarily have to be a first-timer to qualify

President Bush signed the *Housing Assistance Act of 2008* this past summer. It allows first-time homebuyers a tax credit equal to the lesser of \$7,500 (\$3,750 if married filing separately) or ten percent of the purchase price of a home. A "first-time homebuyer" is an individual who had no present ownership interest in a principal residence for the three years preceding the purchase of the new home. If the individual is married, his or her spouse must also meet the definition of a first-time homebuyer.

Sound too good to be true? You're right. The credit must be paid back over fifteen years beginning with the second tax year in which the residence is purchased. In essence, the credit is really a \$7,500 interest-free loan from the government. Also, the credit is phased out for taxpayers with modified adjusted gross income between \$75,000 and \$95,000 (\$150,000 and \$170,000 for joint filers). Please note that purchases from a related party will not qualify for the credit.

This credit is available for houses purchased after April 8, 2008, and before July 1, 2009.

## New Deduction for Non-itemizers

Get the most for your property taxes

For 2008, a "real property tax deduction" is added to the components of the standard deduction. In addition to the standard deduction allowed to non-itemizers, taxpayers are allowed to deduct up to an additional \$500 (\$1,000 for joint filers) of property taxes paid. Foreign property taxes do not appear to qualify for this deduction; however, they still qualify for itemized deductions.



## Selling a Converted Principal Residence

Excluding the gain isn't so easy anymore

Under current law, if you sell property that has been owned and used as a principal residence for two out of the past five years, you can exclude up to \$250,000 (\$500,000 for joint filers) of the gain. This means you could buy a rental home or rental property and use it as such for years. As long as you moved into it and lived there for two years prior to a sale, you could exclude gain on it (except for depreciation).

Under the *Housing Assistance Act of 2008*, as of January 1, 2009, the gain allocated to this period of nonqualified use will no longer be excludable. Hence, if you have property used as a second home (e.g., vacation home) or in a rental activity that you some day plan on converting to your principal residence, you may be affected by this new provision. To avoid these new rules altogether, you can sell the property before January 1, 2009. These new rules are very complex, so it's important to talk to your tax professional before converting or selling. It could make a big difference on your tax return.



## Early Pension Distributions

How much does it really cost?

Generally, retirement funds aren't taxed until you receive distributions. If you draw on your pension before age 59½, a ten-percent penalty for early withdrawal may apply. In addition, the state you live in may assess an additional tax on the early withdrawal. Some financial institutions have their own charge for not leaving the money with them for long enough. Plus, you must include the full amount of the distribution in your income. In some cases, those who withdraw money early lose almost 50 percent of the amount in tax and penalties. Payors are required to withhold 20 percent of the amount withdrawn for federal income tax. There are a few exceptions to the early withdrawal rule for such things as disability or death. A job lay-off is not an exception, however.

If you will be receiving money from your pension or retirement plan, visit with your tax professional first. There may be a way to minimize, defer, or even avoid paying taxes or penalties.

## Repayments of Amounts Previously Included in Income

You may be allowed a deduction

Often taxpayers properly include wages, disability benefits, or other income on their tax return only to find out later that they did not have an unrestricted right to the income. If this happens to you, you'll have to repay the income, usually in a later year. The IRS will allow a deduction or a tax credit, depending on how much you paid back during the tax year.



If the repayment was \$3,000 or less, the amount is generally deducted as a miscellaneous itemized deduction on Schedule A, *Itemized Deductions*. The total of all miscellaneous itemized deductions must exceed two-percent of your total adjusted gross income before any tax benefit is derived.

If the repayment was more than \$3,000, you have two choices. You can either deduct the total amount you repaid as a miscellaneous itemized deduction not subject to the two-percent limit, or you may choose a tax credit for the year of repayment equal to the difference in the tax you paid on the income and the amount you would have paid if the income was not included on your tax return in the prior year.

