

Two Key Tax Changes in New Law

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The new Worker, Homeownership, and Business Assistance Act was rushed through Congress and signed into law on November 6, 2009. Here is a brief summary of two key tax changes in the new legislation.

1. First-time homebuyer credit: The credit, which was revised by the economic stimulus law, was scheduled to expire on December 1, 2009. It was equal to the lesser of \$8,000 or 10% of the home's purchase price. A "first-time homebuyer" was defined as an individual who has not owned a principal residence for the three years prior to the purchase.

Previously, the credit began to phase out if your modified adjusted gross income (MAGI) exceeded \$150,000 for joint filers and \$75,000 for single filers. Also, you had to recapture the credit if you stopped using the home as your principal residence.

Under the new law, you may claim the credit for home purchases made before May 1, 2010 (July 1, 2010, if a binding contract is in place on May 1, 2010). In addition, the credit begins to phase out at \$225,000 of MAGI for joint filers and \$125,000 for single filers. The credit can be elected on the tax return for the year prior to the year of the purchase.

Furthermore, the credit is now available to taxpayers other than first-time homebuyers for purchases after November 6, 2009. If you have owned and used your home as your principal residence for any five consecutive years during the previous eight years, the maximum credit is \$6,500.

No credit is allowed for post-November 6, 2009, purchases on a home costing more than \$800,000. Also, the prior recapture rule continues to apply.

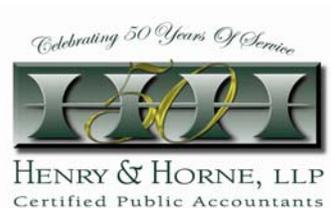
2. Net operating losses: Normally, a business can carry back a net operating loss (NOL) for two years and then forward for up to 20 years. The economic stimulus law allowed a small business with gross receipts of \$15 million or less to carry back NOLs for three, four or five years in tax years beginning or ending in 2008.

Under the new law, a business can carry back losses for up to five years, regardless of its size. This option is available for NOLs incurred in either 2008 or 2009 but not both years (unless an eligible small business elected to carry back a 2008 loss under the prior rules).

The new law also limits the carryback to the fifth year to 50% of the available taxable income for the year. Any remaining NOL may be used to offset taxable income in the remaining four carryback years without any restriction. The new NOL election must be made by the tax return due date (plus extensions) for the last tax year, beginning in 2009. This election is irrevocable.

Contact your Henry & Horne professional concerning the impact of the new law on your situation.

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