

Breaking News: Congress Passes Homebuyer Tax Credit Expansion

by Steve Cook, November 6, 2009

After the Senate gave final approval last night without a dissenting vote, the House of Representatives voted overwhelmingly this afternoon to pass legislation containing an extension and expansion of the homebuyer tax credit, completing Congressional action and sending the tax credit to President Obama for his signature, possibly as early as tomorrow.

The \$8,000 homebuyer tax credit for first-time buyers, due to expire in 25 days, will be extended through April 30 of next year and buyers will have an additional two months, until the end of June, to close. First-time buyers who are in the process of making a purchase will no longer need to worry about qualifying for the \$8,000 credit if they close after the November 30 deadline. The new legislation increases the income limit for couples with income up to \$225,000, a nearly \$55,000 increase above the level in existing law.

For the first time, the new legislation makes buyers who already own a home eligible for a credit. A \$6,500 maximum credit will be available to existing homeowners who have lived in their current residence for five of the prior eight years. The legislation limits eligibility for the existing homeowner credit to homes worth \$800,000 or less.

The legislation takes effect December 1 and is not retroactive. Both credits are available only for primary residences, not second homes or investment properties.

In the House debate, Speaker Nancy Pelosi (D-Calif.) took the floor to say the homebuyer tax credit was helping a new generation of Americans live out their dream of homeownership and financial independence. Debate on the homebuyer credit was overwhelmingly positive and the legislation passed 403 to 12.

However, several leading economists have voiced concern about the \$16.7 billion cost of the credit and the wisdom of spending up to \$400,000 per homebuyer to stimulate real estate sales and White House support for extending the credit has been lukewarm at best. However, it is virtually certain that the President will sign the legislative package, which contains an expansion of unemployment benefits as well as the tax changes.

In the Senate, the homebuyer tax credit was amended to a bill expanding unemployment benefits by 20 weeks for those who have exhausted their benefit. The latest unemployment numbers are due out tomorrow and Congressional leaders are rushing the unemployment bill to the White House so that the President can show compassion by signing on the same day more job losses are announced.

The legislation included provisions added to address complaints of fraud. The Internal Revenue Service is given greater authority to oversee the process to root out fraud, and provisions are added in response to past abuses of false sales or underage buyers. An investigation by the Treasury Department's Inspector General for Tax Administration found that more than 580 children, some as young as four years old, had received \$627,000 in first-time homebuyer credits. The IRS has identified 167 suspected criminal schemes and opened nearly 107,000 examinations of potential civil violations of the first-time homebuyer tax credit.

The legislation also contains a provision supported by the National Association of Home Builders which will help larger companies strapped for cash with net operating losses (NOL). Ordinarily these companies can carry back these losses for only two years to qualify for a tax refund. The provision would make this process extend the carry-back to five years for either 2008 or 2009. The tax break will now apply to losses in either 2008 or 2009, and the income cap will come off.