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Homebuyer Strategy: Maximize Tax Credits

By THE ASSOCIATED PRESS

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When it comes to the \$8,000 tax credit for first-time homebuyers, it seems there's a new program every week to help tap that money today.

The credit can be claimed on 2008 or 2009 tax returns. Homebuyers who get a loan backed by the Federal Housing Administration can use the money to cover closing costs and other fees, and at least 10 states offer ways to use the tax credit faster.

"There are some real neat tax planning strategies you can apply now," said Bob Meighan, vice president of TurboTax.

To be eligible, a buyer cannot have owned a home in the past three years. So if you're ready to buy, here are some tips:

A taxpayer fills in an extension form. New homebuyer credits span '08-09.

begins to phase out. If you bought a home this year and expect your 2008 income to be lower than 2009's, it makes sense to file for the credit on a 2008 amended return.

If you think your income will decrease due to job loss, or wage or hour cuts, it makes more sense to maximize the tax credit by filing for it on a 2009 return, Meighan said.

- **Tax withholding:** Another benefit to waiting: You can increase your take-home pay. By taking the credit when you file a 2009 return next year, you can change your tax withholding status with your employer now and get more on a paycheck-to-paycheck basis, Meighan said.

You'll be giving up a "fatter" tax refund next year, but each month you'll have more in your pocket.

- **Bridge loans :** Ten states (and the list keeps growing) are offering so-called "bridge loans" for the federal tax credit, so homebuyers can take advantage of the \$8,000 before the 2010 filing season. Qualified homebuyers in Colorado, Delaware, Idaho, Kentucky, Missouri, New Jersey, New Mexico, Ohio, Pennsylvania and Tennessee can get a loan with little to no interest and repay it with the tax credit refund next year.

"It gives homebuyers more flexibility" with the money, Meighan said.

California offers a one-time credit for newly built homes bought March 1, 2009 to Feb. 28, 2010. The nonrefundable credit is for all buyers. It equals 5% of the purchase price up to \$10,000, and can be claimed over a three-year span. However, the \$100 million put aside for the state credit is expected to run out this month or next.

- **Advance credit:** Last month, the FHA said its borrowers can get advances on the \$8,000 first-timer credit from lenders, so they needn't

wait to get the money next year from the Internal Revenue Service. They still must come up with the FHA's 3.5% down payment, but the tax-credit advance can be applied to closing costs, fees or a down payment.

John Roth, senior tax analyst at CCH, advises buyers to wait and get the money via a 2009 tax return. There are "always those initial expenses when you move in that are more than you expect," he said.

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