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WHAT \$787 BILLION MEANS TO YOU:

A SUMMARY OF THE AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009

The American Recovery and Reinvestment Act (ARRA), signed into law on February 17, 2009, is a \$787.2 billion package that combines tax cuts and government spending in an attempt to improve the nation's economy. This edition of the Barnes Walker Newsletter is designed to provide you with a brief overview of the Act's major provisions, with a special focus on how it might impact homeowners, home buyers, and average taxpayers.

THE 2009 FIRST-TIME HOMEBUYER TAX CREDIT

The provision with perhaps the most immediate impact on the hard-hit housing industry is ARRA's expansion of the First-Time Homebuyer Tax Credit.

The credit was first created as a part of last year's Housing and Economic Recovery Act (HERA). Under HERA, the credit gave first-time buyers a \$7,500 tax credit for purchasing a home, but the credit had to be repaid over 15 years.

The Senate version of this year's stimulus would have increased the maximum amount of the credit to \$15,000 and made it available to anyone purchasing a primary residence, rather than just first-time buyers.

Unfortunately, this provision was dropped during negotiations to reconcile the House and Senate versions of the stimulus package, and the final version of the bill that President Obama signed into law as ARRA contains a more limited expansion of the credit.

What Has Changed?

- The maximum amount of the credit has increased from \$7,500 to \$8,000.
- The credit still cannot exceed 10% of the cost of

the home, so homes must be worth at least \$80,000 to receive the full benefit of the credit.

- The tax credit is now available for homes purchased no later than November 30, 2009, which extends the original cut-off date of July 1, 2009.
- First-time buyers who purchase a home on or after January 1, 2009, and on or before November 30, 2009, will not have to repay the credit, unless they sell the home within three years.

What Has Stayed the Same?

- Unfortunately, buyers who purchased their homes in 2008 and claimed the \$7,500 credit are still obligated to repay it over a 15 year period, starting two years after the credit is claimed.
- The credit is still limited to the purchase of primary residences.
- The credit is still available only to first-time homebuyers (defined as buyers who have not owned a primary residence at any time during the 3 years preceding their purchase). If the buyers are married, *both* spouses must qualify as first-time homebuyers.

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(First-Time Homebuyer Tax Credit continued)

- Buyers who purchase their homes in 2009 can still treat the closing as having occurred on December 31, 2008, and can still claim the credit on their 2008 tax returns.
- Buyers who purchased their homes in early 2009 and already filed their 2008 tax returns, claiming the \$7,500 credit, should file an amended return to get the benefit of the extra \$500.
- Buyers who purchase their homes in 2009 but claim their credit on their 2008 tax return will *not* be subject to the repayment requirement of the 2008 credit.
- There are still the same income restrictions on the credit.
 - Single buyers must have a “modified adjusted gross income” (MAGI) of \$75,000 or less to receive the full credit. The credit is proportionally reduced for single buyers whose MAGI is between \$75,000 and \$95,000, and single buyers whose MAGI exceeds \$95,000 are not eligible for the credit at all.
 - Married buyers must have a “modified adjusted gross income” (MAGI) of \$150,000 or less to receive the full credit. The credit is proportionally reduced for married buyers whose MAGI is between \$150,000 and \$170,000, and married buyers whose MAGI exceeds \$170,000 are not eligible for the credit at all.
 - “MAGI” can be determined by taking the buyer’s “adjusted gross income” or “AGI,” as calculated for federal income tax purposes on the buyer’s federal income tax return, and then increasing AGI by certain amounts such as the buyer’s student loan deductions, IRA contribution deductions, higher-education cost deductions, etc.
- The credit is still refundable, meaning that if the credit exceeds the taxpayers’ total tax liability, the taxpayer will receive a refund from the IRS in the amount of the excess.



OTHER PROVISIONS IMPACTING HOUSING:

The American Recovery & Reinvestment Act (ARRA) also expands several other provisions of the 2008 Housing and Economic Recovery Act (HERA) that were designed to help the housing market.

HUD Conforming Loan Limits:

HERA increased the loan-amount limits on single-family home loans that the FHA, Fannie Mae, and Freddie Mac can insure. ARRA continues these limits for 2009. In most areas, this means that the limits will remain at \$271,050 for the FHA and \$417,000 for Fannie Mae and Freddie Mac. In Manatee and Sarasota Counties, however, HUD has increased the limits for all three types of loans to \$442,500. This is significant because Fannie Mae and Freddie Mac own or guarantee over 50% of all U.S. mortgage loans, and because conventional mortgage loans are simply not available to some buyers, leaving FHA-insured loans as those buyers’ only option.

Neighborhood Stabilization:

HERA created the Neighborhood Stabilization Program. The Program was designed to allow states and local communities to purchase and rehabilitate foreclosed or abandoned properties to provide affordable housing and prevent blight. HUD has allocated \$5,283,122 to Manatee County through this Program, and \$7,140,681 to Sarasota County. ARRA provides an additional \$2 billion in funding to the Program.

TAX RELIEF PROVISIONS:

ARRA contains a variety of revisions to the Internal Revenue Code directed at helping qualifying individuals and businesses. Below is a summary of some of these provisions. You should always consult an accountant or CPA for more information on how these provisions apply to a specific taxpayer.

The “Making Work Pay” Credit:

This credit allows a taxpayer to claim a refundable tax credit in the amount of the lesser of: (i) 6.2% of the taxpayer’s earned income, or (ii) \$400 for single taxpayers or \$800 for married taxpayers filing jointly. Other points to note about this credit:

- The credit is refundable, meaning that, if the amount of the credit exceeds the taxpayer’s total tax liability, the IRS will issue the taxpayer a refund check in the amount of the excess.
- Single taxpayers whose modified adjusted gross income (MAGI – see the description on Page 2) exceeds \$75,000 and married taxpayers filing jointly whose MAGI exceeds \$150,000 will receive a reduced credit.
 - Specifically, the amount of the credit will be reduced by 2% of the portion of the taxpayer’s MAGI that exceeds these limits.
 - In other words, this credit, like the First-Time Homebuyer Tax Credit, is not available at all to single taxpayers earning more than \$95,000 and married taxpayers jointly earning more than \$190,000.
- Taxpayers are expected to receive the credit in the form of decreased income tax withholding from their paychecks, which should start by this summer. Taxpayers may need to work with their employers to ensure that they receive the appropriate reduction in withholding.
- The credit terminates after the 2010 tax year.

***Other Tax Provisions:***

- Earned Income Tax Credit—The existing credit is increased for taxpayers with three or more qualifying children for 2009 and 2010. To benefit, taxpayers must first qualify for the credit based on their income.
 - For example, in 2008, married taxpayers with two or more qualifying children must have an AGI of less than \$41,646. (The AGI limits are lower for single taxpayers and taxpayers with one or no qualifying children.) Taxpayers whose AGI exceeds these limits (as adjusted for 2009 & 2010) are not eligible for the credit. Additional requirements, such as limitations on investment income, also apply.
- Child Credit—The refundable portion of the existing credit is increased for 2009 and 2010. Again, taxpayers must first qualify for the credit based on their income.
- American Opportunity Tax Credit—The credit increases the Hope Scholarship Credit for 2009 and 2010 to a maximum of \$2,500 for qualifying higher education expenses. AGI must be less than \$80,000 for single taxpayers and \$160,000 for married taxpayers for the taxpayers to receive the full benefit of the credit. Above these amounts, the credit is proportionally phased out and is eliminated when AGI exceeds \$90,000 for single taxpayers and \$180,000 for married taxpayers.

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Did you know:

This quarter, you will receive the Barnes Walker Newsletter in two parts: This part describes the \$787 billion American Recovery and Reinvestment Act. Look for more information about the President’s new Homeowner Affordability and Stability Plan – directed toward homeowners struggling with their mortgage payments – in the next part.

(Tax Relief Provisions continued)

- Unemployment Compensation Exclusion—The first \$2,400 in unemployment compensation will be excluded from a taxpayer's gross income.
- Vehicle Purchase Deduction—Taxpayers can deduct from their income the amount of any state sales or excise tax paid on the purchase price of a new vehicle, up to \$49,500, regardless of whether they itemize. The full credit is available to single taxpayers whose MAGI is less than \$125,000 and married taxpayers whose MAGI is less than \$250,000. The credit is then proportionally phased out until the taxpayer's MAGI reaches \$135,000 (for single taxpayers) and \$260,000 (for married taxpayers), at which point it is no longer available.
- Nonbusiness Energy Property Credit—Taxpayers can claim a credit for the tax years of 2009 and 2010 of up to \$1,500 based on qualifying energy efficiency improvements made to residential property.
- Net Operating Loss Carryback for Businesses—The Act extends the carryback period for net operating losses in 2008 from two years to five for businesses with gross receipts of \$15 million or less.

Again, all taxpayers should consult their tax professionals to discuss any additional eligibility requirements and the ways in which these and other tax provisions in ARRA could impact their income tax liability. Additional information is also available from the IRS at www.irs.ustreas.gov.

MAJOR SPENDING PROJECTS:

In addition to the First-Time Homebuyer Tax Credit and its other tax cuts, ARRA also contains a significant amount of government spending, which contributes to the Act's often-cited \$787-billion price tag. Some of the major areas of spending are described below, with a breakdown of the highest-cost projects within each area.*

- \$83.27 billion on construction and modernization of infrastructure, including:
 - \$29 billion for highway and bridge construction projects
 - \$24.2 billion for developing water resources, environmental cleanup projects, and improvement of public lands
 - \$9.1 billion for updating facilities for the Social Security Administration, the State Department, the Department of Defense, the Veterans' Administration, the Department of Agriculture, and Job Corps
 - \$8.4 billion for improving, upgrading, and repairing mass transit systems
 - \$8 billion for high-speed rail projects
 - \$2.1 billion for airport improvement and safety projects
 - \$1.3 billion to Amtrak
- \$46.37 billion on education, including:
 - \$15.8 billion to increase the Pell Grant and fund college work-study programs (the maximum amount of the Pell Grant is now set at \$4,860 for 2009–2010, up from \$4,731 for 2008–2009)
 - \$13 billion for children identified as disadvantaged
 - \$12.2 billion to increase federal funding for special education
 - \$2.1 billion for the Head Start program for preschoolers and the Early Head Start program for infants and toddlers

* All figures are taken from the "Summary: American Recovery and Reinvestment, Conference Agreement" released by David Obey (D-WI), Chairman of the House Committee on Appropriations, on February 13, 2009.

(Major Spending Projects continued)

- \$43.35 billion on increasing energy efficiency and developing alternative energy, including:
 - \$11 billion to modernize the electricity grid
 - \$6.3 billion to help state and local governments invest in energy efficiency
 - \$6 billion in loans for renewable energy projects
 - \$5 billion to help low-income families weatherize their homes
 - \$4.5 billion to make federal buildings more energy efficient
 - \$3.4 billion for carbon capture and sequestration technology projects
 - \$2.5 billion to universities, companies, and laboratories for research on energy efficiency and renewable energy sources
 - \$2 billion in grants to U.S. manufacturers of “advanced vehicle batteries”
- \$26.3 billion on the development and funding of science and technology, including:
 - \$16 billion to the National Science Foundation, the National Institutes of Health, the Department of Energy, and NASA for scientific research and facilitation of grants to universities
 - \$7.2 billion to increase broadband and wireless services
 - \$1.12 billion to help small businesses and businesses in rural and distressed urban areas
 - \$650 million to help households convert from analog to digital television service



- \$24.1 billion on healthcare, including:
 - \$19 billion to fund efforts to computerize health records
 - \$2 billion to increase the availability of healthcare to the uninsured
 - \$1.1 billion to research the effectiveness of different medical treatments
 - \$1 billion to treat preventable and infectious diseases
- \$12.69 billion on housing, including:
 - \$4 billion to repair and modernize public housing
 - \$2.25 billion to provide financing for stalled low-income housing projects
 - \$2 billion to owners of Section 8 subsidized housing
 - \$2 billion to local communities to purchase and rehabilitate foreclosed and abandoned properties through the Neighborhood Stabilization Program

(Major Spending Projects continued)

- \$23.24 billion on food stamps and other community-based projects, including:
 - \$19.9 billion to increase availability of food stamps
 - \$2 billion to support community services and economic development in distressed areas
- \$10.48 billion on private and public sector jobs and services, including:
 - \$4 billion to support state and local law enforcement
 - \$3.95 billion for job training
 - \$1 billion to fund the 2010 census

Many of us may have liked to see more of ARRA's tax cuts and spending projects targeted expressly at the problems facing the housing market. Particularly here in Manatee County, and in the Tampa Bay area in general, many people are feeling the effects of falling house values combined with rising mortgage payments. As it is, ARRA's most immediate assistance to the housing market – and taxpayers in general – is likely to come from the tax credits made available to homeowners, including the limited expansion of the First-Time Homebuyer Tax Credit. Of course, it is too early to predict ARRA's effect on the overall health of the economy. At Barnes Walker, we continue to maintain an up-beat outlook, while closely monitoring federal and state efforts to address the issues facing all sectors of the economy, both nationally and locally.

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