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## Orange County Chapter

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## \$10,000 California New Home Tax Credit Getting Consumers Back in the Housing Market

Irvine, CA., March 3, 2009 – New homebuilders are bracing for huge crowds this weekend, which marks the first full weekend that Southern California homebuyers can take advantage of the new homebuyer tax credit that just went into effect on March 1<sup>st</sup>. But consumers will need to act quickly, the state put a limit of \$100 million for the program and will allocate the tax credit to homebuyers on a **first-come, first-served basis**. With each homebuyer tax credit being worth as much as \$10,000, the program's funding limit could be consumed quickly.

As part of the recently-passed state budget, California enacted a \$10,000 state tax credit for individuals who purchase a new, previously unoccupied home (5% of the purchase price of the new home, up to \$10,000). With enactment of the California homebuyer tax credit, the Governor and the Legislature are encouraging reluctant, wait-and-see homebuyers that the time to return to housing markets is now.

### California New Homebuyer Tax Credit Overview

- To earn a homebuyer tax credit, buyers must close escrow on a new, previously unoccupied home between March 1, 2009 – February 28, 2010.
- These homebuyers can apply the \$10,000 tax credit to their state income tax returns over three successive years (\$3,333 each year), beginning with tax year 2009.
- The homebuilder must certify to the state that the home has never been occupied.
- The homebuyer must certify that they will occupy the home as their principal residence for at least two years following the purchase.
- The state Franchise Tax Board is the state agency responsible for administering the tax-credit. By Friday, February 27, FTB will have details for consumers on how to submit an application for the credit on its website, [www.ftb.ca.gov](http://www.ftb.ca.gov)

**The Goal: Get the Housing Sector Moving Again.** As an increasing number of economists and policy-makers are saying, recovery of the state economy – and the national economy – relies on a recovery of the housing sector. Slumping new home production has been steadily killing jobs for the last two years. And these aren't just construction jobs – they're truckers; cabinet makers; furniture manufacturers; building suppliers; appliance distributors; utility workers; lenders; accountants; insurers; machinists; retail sales workers; food and beverage workers; warehouse and storage managers; and many more.

**Construction is the backbone of the economy.** The decline in new home construction has resulted in the loss of \$46 billion in economic output for California from 2005-2008 and 287,000 jobs lost in housing and related sectors. Every 1,000 homes built creates as many as 3,000 new jobs. New homes produce a net fiscal gain for state coffers. In fact, each \$10,000 tax credit nets \$6,000 in additional state revenues.

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A similar tax credit worked before. In 1975 during a similar economic slump, housing markets turned cold and new home construction had ground to a halt.

- Congress enacted a tax credit (5% of home value, capped at \$2,000) for the purchase of new homes.
- Home purchases increased 25% in the first year. New housing starts doubled in two years.
- It wasn't the size of the credit that moved people. It was the demand for a limited benefit and the signal that now was the time to reenter the market.

Comparing the State and Federal Housing Tax Credits The state homebuyer tax credit (\$10,000) and the federal credit (\$8,000) can be used together, but there are conditions that must be satisfied:

- The state homebuyer tax credit applies only to new, previously unoccupied homes.
- The federal tax credit is limited to first-time homebuyers, only.
- The federal tax credit is also limited to individuals with annual incomes of \$75,000 (\$150,000 for dual filers).
- Both the state and the federal homebuyer tax credit require the purchaser to maintain occupancy of the home for a period of time following the purchase – two years for the state and three years for the federal credit. Both tax credits must be repaid if the purchaser fails to meet these occupancy requirements.

**To qualify for both:** A homebuyer who qualifies for both credits (up to \$18,000) must buy a new home; can't have owned one in the last three years; must have an individual annual income of \$75,000 or less; and must live in the home for at least three years. Also important to remember regarding the use of both credits is that the state homebuyer tax credit is paid out over three years (i.e. \$3,333 per year, based on a \$10,000 credit) whereas the federal credit is a one-time tax benefit.

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The Orange County Chapter of the Building Industry Association of Southern California (BIA/OC) is a non-profit trade association representing more than 1,000 companies employing over 117,000 people affiliated with the home building industry. The BIA/OC mission is to promote proactive participation in the development of economic and community issues in Orange County. The BIA/OC is affiliated with the California BIA and the National Association of Home Builders.

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