



Tax Changes From New Housing Bill

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President Bush recently signed into law a bailout for the housing industry. While most of the provisions deal with the subprime mortgage crisis, there are three tax provisions that could impact you or your adult children.

VACATION HOME CONVERTED TO PRINCIPAL RESIDENCE

It is not uncommon for clients to purchase a second home or condo with the idea of eventually living in it once they retire. When they sell their principal residence they are entitled to a \$250,000 capital gain exclusion (\$500,000 for married couples). Once they move into their second home, they may find it too small or they don't like the area and want to sell and buy somewhere else. Under the old law as long as they lived in the second home for two years or more they would qualify for a second \$250,000/\$500,000 exemption and be able to essentially sell the second home tax free.

Under the new law, starting in 2009 you can't exclude the capital gain allocated to periods of "nonqualified use." Nonqualified use refers to any period (after the end of 2008) when the property wasn't used as a principal residence by you, your spouse or a former spouse according to a congressional staff summary. This will reduce the exclusion for many owners of vacation properties that were converted to primary residences. For example, if a taxpayer bought a vacation condo and held it for five years before converting it to a principal residence and then sold it two years later, only 2/7 of the gain would be eligible for the capital gains exclusion. The new law only applied to sales in 2009 or after, so if you find yourself in this situation then selling the home before the end of 2008 would allow you to fall under the more liberal old rules.

REPAYABLE \$7,500 CREDIT FOR FIRST HOMEBUYERS

For "first-time homebuyers" there is now a \$7,500 tax credit given in the year of purchase that must be paid back (interest free) over 15 years (starting in the second year after the purchase). The repayment process will occur by having your taxes increased by 1/15 of the initial tax credit. The

credit is limited to 10% of the new home value and the credit phases out for married couples with adjusted gross income between \$150,000-\$170,000. For single persons the credit phase out is between \$75,000-\$95,000. If you sell the home before the 15 year payback, the entire balance must be paid off in the year of sale.

If your adult children are in the market for their first home (or if you want to help them buy a home or condo) this would be one way to help finance it. This credit is available for first home purchases between April 9, 2008 and July 1, 2009. A "first-time homebuyer" is actually defined as any person who has not owned an interest in a principal residence in the United States during the 3-year period prior to the purchase of the home to which the credit applies. Thus even people who have owned a home in prior years can qualify as long as it has been at least three years since the sale of the home.



ADDITIONAL PROPERTY TAX DEDUCTION FOR THOSE WHO USE THE STANDARD DEDUCTION

Beginning in 2008, taxpayers who use the standard deduction and do not itemize can nevertheless take up to \$500 (\$1,000 if married) in property tax deductions in addition to their standard deduction. This will probably affect taxpayers with modest size homes or those who have little or no interest and taxes to deduct (for instance, those who make a home purchase near the end of the tax year). This could also help the first-time homebuyer offset the credit repayment tax cost in later years.

If you have any questions on these provisions, your Relationship Manager would be happy to discuss them with you.

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LPL Financial Conference

Terry Kaul and Sam Swisher recently attended the annual LPL Financial focus08 conference held this year in Chicago at McCormick Place. Nearly 7,000 people attended the three day series of general sessions and seminars. Terry Kaul, as Managing Principal, is proud to have attained the "Chairman's Council" status with LPL Financial which is reserved for only the top 2% of their Financial Advisors.

Among the benefits of attending the conference was learning about new financial planning and investment products and strategies. Perhaps the most beneficial part of the conference though was the opportunity to exchange thoughts and ideas with the management of LPL Financial. Often these interactions bring about positive changes that allow us to better serve our clients. The conference also provided an occasion for a free exchange of ideas with other financial professionals dealing with some of the same issues that we face.

Of course, something that can make a conference stand out are it's speakers and this one certainly had it's share. Notable speakers at the conference were Ted Koppel (retired ABC journalist and Nightline host), Larry Bossidy (ex GE exec, and retired CEO of Honeywell), Nassim Taleb (author of the Black Swan), and James Surowiecki (author of The Wisdom of Crowds).

"Plans fail for lack of counsel, but with many advisers, they succeed."

-Book of Proverbs

VANTAGE NEWS

For many of us, summer months bring memories of the fun we had when we were kids enjoying our "summer vacation" from school. This summer, a few kids (whose parents work at Vantage) got a chance to briefly experience what the "grown-up" world of everyday work was like here at Vantage. John Vislisel (12), Niki Taylor (13) and Grace Rohrwasser (12) became Vantage interns for a day. They gave our office a real boost when they filed, shredded, installed programs and yes, managed to have some fun while doing it.



As our recent articles on "tax planning" have been pointing out, there are opportunities to think of our children (even when they're adults) and be smart with our finances at the same time. A more important investment to make in our children though is our time. Whether it be a fishing trip with your son (something Michael and Kyle did last month), going away on a Christian retreat (as Tom and his son Micah recently did) or just plain having fun at Great America (as Kim did with Niki and Josh), it's important to invest your time with the future generation. The return for this investment may be harder to see at times, but it is far more significant.

Announcement!

Our very own Sam Bakou will be teaching a course in District 211 titled, "Taking Control, a Financial Workshop for Women". This course is designed for single, widowed, working or married women who desire to be financially stable. Some of the topics will include goal setting, cash management, insurance, taxes, investments as well as specific issues such as divorce, child support, inheritances and widow benefits.

Please see the district 211 web-site (<http://www.d211.org/continue/catalog.pdf>) or contact Sam for additional details.

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