The

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Newsletter

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The First-Time Homebuyer Tax Credit

Recent changes to the first-time homebuyer tax credit mean you might be able to benefit from the credit, even if you're not actually a first-time homebuyer. To take advantage of the credit, however, you have to act by May 1. Here are the basics as they apply to home purchases in 2010.

Qualifying for an $8,000 credit

If you, and your spouse if you're married, haven't owned a principal residence in 3 years, you may qualify for a credit worth 10% of the purchase price of a home, up to $8,000 ($4,000 if you're married and file a separate federal income tax return). The home has to be your principal residence, and must be purchased before May 1, 2010. If you enter into a written binding contract before May 1, 2010, you can still qualify for the credit if you close on the home before July 1, 2010.

Qualifying for a $6,500 credit

If you, and your spouse if you're married, have maintained the same principal residence for at least 5 consecutive years in the previous 8 years, you may qualify for a credit if you purchase a new principal residence. While the credit remains 10% of the purchase price of the new home, it's capped at $6,500 ($3,250 if you're married and file a separate federal income tax return). As with the $8,000 credit, the home must be purchased before May 1, 2010 (or you must close on the home by July 1, 2010, after entering into a written binding contract before May 1, 2010).

Limitations

There are several limitations that apply (the same limitations apply to both the $8,000 credit and the $6,500 credit):

The credit is reduced if your modified adjusted gross income (MAGI) exceeds $125,000 and is

- completely eliminated if your MAGI reaches $145,000. If you're married and file a joint return, the credit is reduced if your joint MAGI exceeds $225,000 and is eliminated if your MAGI reaches $245,000.
- You can't claim a credit if the purchase price of your principal residence exceeds $800,000.
- You can't claim a credit if you're under age 18 at the time of purchase (unless you're married and your spouse is at least 18), or if you can be claimed by someone else as a dependent.
- You can't claim a credit if you purchase a principal residence from someone who is closely related to you or your spouse.
- You can't claim the credit if you're a nonresident alien.

Payback requirements

Generally, if you qualify for the credit as a result of a 2010 home purchase, you won't have to worry about repaying the credit. There's one important exception, however: if the home ceases to be your principal residence in the 36 months following the purchase, you'll have to pay the credit back. (If you're married at the time of purchase, the home must remain the principal residence of either you or your spouse for the 36-month period.) If you have to pay back the credit, you'll do so on the tax return for the year in which the home ceased being your principal residence.

Treating a 2010 purchase as made in 2009

If you purchase a qualifying principal residence in 2010, you can elect to treat the purchase as if it occurred on December 31, 2009, allowing you to claim the credit on your 2009 federal income tax return.

10 Financial Terms Everyone Should Know

Understanding financial matters can be difficult because of the jargon used. Becoming familiar with these ten financial terms may help make your financial picture clearer.

1. Time value of money

The time value of money is the concept that money on hand today is worth more than the same amount of money in the future because the money today can be invested to earn interest. Why is it important? Understanding that money today is worth more than the same amount in the future can help you evaluate and compare investments that offer returns at different times.

2. Market volatility

Market volatility measures the rate at which the price of a security moves up and down. If the price of a security historically changes rapidly over a short period of time, its volatility is high. Conversely, if the price of a security rarely changes, its volatility is low. Why is it important? Understanding volatility can help you evaluate whether a particular investment is suited to your investing style and risk tolerance.

3. Inflation

Inflation reflects any overall upward movement in the price of goods and services in the economy. Why is it important? Because inflation generally pushes the cost of goods and services higher, any estimate of how much you'll need in the future--for example, how much you'll need to save for retirement-- should take into account the potential impact of inflation.

4. Asset allocation

This strategy means spreading investments over a variety of asset categories, such as equities, cash, bonds, etc. Why is it important? How you allocate your assets depends on a number of factors, including your risk tolerance and your desired return. Diversifying your investments over asset classes can potentially help you manage risk and volatility.

5. Net worth

Net worth is what your total holdings are worth after subtracting all of your financial obligations. Why is it important? Your net worth will probably fund most of your retirement years. Therefore, the faster and bigger your net worth grows, the earlier and more comfortably you will be able to retire. Once retired, preserving your net worth to last through your retirement years is your goal.

6. Five C's of credit

These are character, capacity, capital, collateral, and conditions. They're the primary elements lenders evaluate to determine whether to make you a loan. Why is it important? With a better understanding of how your banker is going to view and assess your creditworthiness, you will be better prepared to deliver appropriate information to obtain the loan you want or get a better interest rate.

7. Sustainable withdrawal rate

Sustainable withdrawal rate is the maximum percentage that you can withdraw from an investment portfolio each year to provide income that will last, with reasonable certainty, as long as you need it. Why is it important? Your retirement lifestyle will depend not only on your assets and investment choices, but also on how quickly you draw down your retirement portfolio.

8. Tax deferral

Tax deferral refers to the opportunity to pay income taxes in the future for investment interest and appreciation earned in the current year. Why is it important? Tax-deferred vehicles like IRAs and annuities produce earnings that are not taxed until withdrawn. This allows those earnings to compound further adding to potential investment growth.

9. Risk/return trade-off

This concept holds that, in order to achieve a higher personal investment return, you must be willing to accept greater risk. Why is it important? When considering your investments, the goal is investing to get the greatest return for the level of risk you're willing to take, or to minimize the risk involved in trying for a given return.

10. Annuity

An annuity is a contract where you pay money to an insurance company in return for the insurer's promise to pay it back, with interest, in the future. Why is it important? You can supplement other retirement savings with tax-deferred annuity funds, and you can add to your retirement income with payments from your annuity for a fixed period of time or for the rest of your life.

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