

Doron F. Eghbali Real Estate Law

Should You Buy a House Just for an \$8,000 Tax Credit?

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Your agent, friend or others might be telling you to hurry up and purchase your home to take advantage of the \$8,000 tax credit expiring soon. In fact, home buyers MUST have a binding contract in place by April 30, 2010 and the sale MUST close by June 30, 2010. Nonetheless, just thinking of the \$8,000 and not taking into consideration other factors is imprudent and risky.

1. THINK ABOUT OTHER THINGS OTHER THAN THE \$8,000 TAX CREDIT

Despite the importance of tax credit, consider the following factors:

- Would you have bought the house even if there was no large tax credit?
- Would you have bought the house because you are in a financial situation to afford and not be worried about mortgage payments, rental property taxes, maintenance and other costs?
- Would you have bought the house because you like the location, your neighbors, your surroundings?

2. THINK ABOUT \$8,000 RELATIVE TO THE ENTIRE PURCHASE PRICE

\$8,000 is not a lot of money when you want to buy a house over \$100,000. In fact, the \$8,000 tax credit would be only 8% of a \$100,000 home. Now, if the prospective home is even more expensive, then the amount \$8,000 would be even less than the whole purchase price plus other costs.

3. THINK ABOUT YOUR LENGTH OF STAY AT THE HOUSE

- If you plan to stay at the house for less than THREE YEARS, then the government will get back the \$8,000.
- If you plan to stay at the house for less than FIVE YEARS, then the brokerage and other transaction costs eat up all the \$8,000 tax-credit.

4. THINK ABOUT CLOSING THE DEAL ON TIME

If you have not already started looking for a place, the time might be running out, as a binding contract MUST be in place by April 30, 2010 and the sale MUST close by June 30, 2010.

- **Mortgage Contingency Clause:** One of the most troubling problems for home buyers is low appraisal. In fact, a low appraisal that does not match up with the purchase price puts the whole deal in serious jeopardy. To protect the home buyer, it is advisable to have a Mortgage Contingency Clause. Indeed, the clause allows a home buyer to terminate the

deal if there is a problem with the appraisal or other issues that push the closing date back.

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