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Deadline passes for California's new-home tax credit

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They're gone – for now.

The California Franchise Tax Board announced the end Thursday to new applications for a \$10,000 state tax credit that was snapped up faster than expected by buyers of new, unoccupied houses.

"We're not taking any more applications," confirmed tax board spokeswoman Brenda Voet. The move, announced after just 124 days and during the busiest time of the homebuying season, called for a midnight Thursday deadline to shut off the fax machine accepting applications. The agency said it expected earlier in the day to exceed its limit of 12,000 applications for 10,000 tax credits. The tax agency took 2,000 extra applications because many it received have been duplicates, invalid or incomplete, it said.

But Thursday's action may not be the last for a credit that many say has factored into their buying decisions. California home builders are working on proposed legislation that could, if passed, extend the credit to still more buyers.

The tax credit, which arose from a \$100 million deal to win a vote during February's contentious budget standoff, went into effect March 1. Original expectations of California's home building industry, which pushed the credit to help it sell thousands of finished, but unsold homes, was that it would last up to a year. Builders have been in a downward spiral since 2006 as bank repos have come to account for half or more of home sales.

Builders are proposing legislative changes as early as next week recognizing that not every tax credit will actually reach \$10,000. That, they say, could make the initial allocation of \$100 million for the tax credit go further than the 10,000 buyers originally targeted.

"The language is going into print next week," said Tim Coyle, senior vice president for governmental affairs for the California Building Industry Association. The move, involving Senate Bill 49 and SBX3 38, represents a strategic shift from an earlier bill to add \$200 million to the tax credit allocation. Many lawmakers and some economists have been cool to that idea while the state's budget deficits continue to mushroom.

Economist Chris Thornberg, head of Beacon Economics consulting in Los Angeles, said, "Here's another way of solving that problem. Why don't these builders sell those houses for \$10,000 cheaper?"

The economist also restated an argument made frequently by critics of a bigger allocation: Why build more new houses when California has a glut of existing unsold homes?

Voet said Thursday the tax agency will continue processing applications received and mail certificates to those approved for the credit. That job is expected to be completed next month unless lawmakers approve changes sought by home builders.

Thursday, the Franchise Tax Board reported it has issued 4,808 certificates so far for \$45 million in credits.

The credit applies to all buyers of new homes never previously occupied, and has no income limit. Buyers must live in the home or forfeit the benefit of up to \$3,333 off state taxes for each of the next three years. Many buyers have combined the state's \$10,000 new-home tax credit with the federal government's \$8,000 tax credit for first-time buyers.

Building industry consultants say the credit has been a positive for builders. Greg Paquin, of Folsom-based Gregory Group, said, "Clearly, in our talks with agents and managers, everyone is saying that buyers are coming in asking about the tax credits."

Greg Gross, regional director for Houston-based Metrostudy said unsold inventory has fallen as a result, especially in the capital and the Bay Area.

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