The First-Time Homebuyer Federal Income Tax Credit

Overview

- In 2008, Congress created a $7,500 First-Time Homebuyer Income Tax Credit. It went into effect April 8, 2008 and was set to expire July 1, 2009.
- One of the criticisms of the credit was that a homebuyer who received the tax credit had to repay it over 15 years.
- It has been modified and has new rules effective for homes purchased on or after January 1, 2009 and before December 1, 2009.
- One of the key modifications is that in most circumstances the homebuyer does not have to repay the tax credit.

The Modified Tax Credit

- Removed the repayment requirement, provided the homebuyer does not resell the home for three years.
- Extended the time period for home purchases out to December 1, 2009.
- Credit maximum was increased from $7,500 to $8,000. The credit is calculated as 10% of the purchase price. Example: If purchase price is $70,000, the credit is $7,000. (Assume a property price of over $80,000 for the rest of the discussion).
- It is still only for first-time homebuyers, and only for properties that are the buyer’s primary residence.

First-Time Homebuyer Definition

- Again, the credit is for first-time homebuyers only.
- A homebuyer who owned another primary home at any time during the three years prior to the date of purchase is not eligible for the tax credit.
  - For example, if a person purchases a home on January 1, 2009 and has not owned, or had an ownership interest in, another home at any time from January 1, 2005 through January 1, 2009, he or she is eligible for the tax credit, even if the new home is not the person's "first" home purchase.

Who cannot take this Tax Credit …Other than Buyers Who Aren’t First-Time Homebuyers?

- A homebuyer whose income exceeds the phase-out range.
  - This means joint filers with Modified Adjusted Gross Income (MAGI) of $170,000 and above and other taxpayers with MAGI of $95,000 and above.
- A homebuyer who buys a home from a close relative. This includes a spouse, parent, grandparent, child or grandchild.
- A homebuyer who stops using the home subject to the credit as a main residence.
- A nonresident alien.
- Note: A homebuyer who sells the home subject to the credit within three years must pay back the tax credit.

More on Income Limits

TYPE	INCOME LIMIT	PHASE OUT START
Single Filers	$95,000	$75,000
Married Filers	$170,000	$150,000

This means that for singles making over $75,000 and couples making over $150,000, the credit is proportionately reduced as incomes approach $95,000 and $170,000 respectively.

So if a couple makes $165,000, the excess amount is used to create a fraction 15,000/20,000 (.75) times the credit amount. 75% or $6,000 of the credit would be disallowed. They would still get a $2,000 credit.

The Home

- The home subject to the credit must be the “main home” (i.e.: principal residence, where the homeowner spends 50% or more of his or her time.) It can be a condo, single family detached, co-op, townhouse or something similar.
- The home must be located in the United States.
- Vacation homes and rental properties are not eligible.
- For new construction, the “purchase date” is the date the homebuyer occupies the home. So the move-in date must be before December 1, 2009.

Recapture - 3 Year Residency

- If the home is resold prior to three years of ownership, the tax credit must be repaid.
  - This is an improvement from the prior credit. That credit needed to be repaid in total over 15 years or the balance had to be repaid on resale.
- This provision is designed to prevent flipping homes in order to get the tax credit.

Other Provisions

- The new credit is now also available to residents of the District of Columbia.
- Purchasers who utilize state/local revenue bond financing can now use the credit.
- Purchasers who bought before January 1, 2009 are still subject to the terms of the repayable credit that was put into effect in April 2008.

When Can You Claim the Credit?

- It can be claimed on your 2008 Tax Return (to be filed by April 15, 2009), an amended 2008 Tax Return, or your 2009 Tax Return.

Conclusion

- The new credit is greatly improved compared to the old credit.
- The credit does not need to be repaid as long as you occupy the home for 3 years.
- Hundreds of thousands of potential buyers are estimated to take advantage of the credit.
- For more info on the credit and the 2009 Stimulus legislation visit www.realtor.org/government_affairs or consult your tax advisor.

Caveat

This is based on information available as of February 18, 2009 and is not meant to be tax or legal advice.

As with any tax law change, check with a tax advisor regarding availability, eligibility and possible timing of any tax credit.