

First Time Home Buyer Tax Credit

...what is it?who qualifies? ...how does it work?

The recently enacted Housing and Economic Recovery Act of 2008 offers a new tax credit to first-time homebuyers.

Highlights

- Applies to home purchases after April 8, 2008 and before July 1, 2009.
- Reduces a taxpayer's tax bill or increases his or her refund, dollar for dollar.
- Is fully refundable, meaning that the credit will be paid out to eligible taxpayers, even if they owe no tax or the credit is more than the tax that they owe.

How the Credit Works

The credit operates much like an interest-free loan and must be repaid over a 15-year period. Example: an eligible taxpayer who claims the maximum credit of \$7500 on their 2008 tax return, would begin repayment on their 2010 return in the amount of one-fifteenth or \$500 of additional tax.

How To Claim the Credit

Eligible taxpayers will claim the credit on new IRS Form 5405 to be included with 2008 tax forms as well as detailed instructions. Details can also be obtained at IRS.gov.

Qualifying Home Purchases

Home purchases in the United States between April 8, 2008 and before July 1, 2009. For new construction, the "purchase date" is considered to be the first date you occupy the completed home. Vacation homes and rental properties are not eligible.

Eligible candidates must be first time buyers or taxpayers who have not owned a home in the last 3 years.

Should you close on the purchase of your home in the first half of 2009, you may submit an amended 2008 return or complete forms with your 2009 tax returns.

How is the Credit Amount Determined?

The credit is 10 percent of the purchase price of the home with a maximum available credit of \$7500. This is a per household limit. Qualifying couples filing separate returns would split the credit amount. Regardless of the amount of the credit, it all must be repaid within 15 years.

Income Limits for Qualification

The credit is phased out based on your modified adjusted gross income (MAGI). MAGI is your adjusted gross income plus various amounts excluded from income. For a married couple filing a joint return, the phase-out range is \$150,000 to \$170,000. Filing a single return, the phase out range is \$75,000 to \$95,000.

Who Does NOT Qualify?

If any of the following apply to you, you are not a candidate for this credit:

- Your income exceeds the phase-out range. (\$95K MAGI for an individual \$170K MAGI for a couple filing jointly)
- You buy your home from a close relative including your spouse, parent, grandparent, child, or grandchild.
- You stop using your home as your primary residence.
- You sell your home before the end of the year in which it is purchased.
- You are a nonresident alien.
- You are, or were, eligible to claim the District of Columbia first-time homebuyer credit for any taxable year.
- Your home financing comes from tax exempt mortgage revenue bonds.
- You owned another main home at any time during the three years prior to the date of purchase.

This includes an ownership interest in any home within the three years prior to the purchase you wish to qualify for.

When is The Credit Repaid?

The credit is conceptually a 15 year loan. Repayment begins in the second tax year after the year the credit is claimed and pays back in 15 equal annual installments. The repayment amount is included as an ADDITIONAL tax.

Example: The full \$7500 is qualified for and taken on the 2008 Tax Return. Payback would begin with the 2010 tax year through the 2024 tax year with 15, \$500 payments.

Exceptions to the Repayment Rule

- If you die, any remaining annual installments are not due. If you filed a joint return and then you die, your surviving spouse would repay his/her half of the remaining repayment amount.
- If you stop using the home as your primary residence, all remaining payments become due on the return for the tax year in which the change takes place. This includes the property converting to a vacation home, rental home, or business. (There are special rules for involuntary conversions.)
- If you sell the property, the remaining balance is due on the tax return for the year in which the sale closes. The repayment is limited to the amount of the gain from the sale.
- If the home is transferred as part of a divorce settlement, the occupying party is responsible for making all subsequent installment payments.



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