



AT NW MORTGAGE GROUP, INC.
TheLendisGroup.com

Steve Landis

Certified Mortgage Planner
503-452-0001

www.thelandisgroup.com

First Time Home Buyer Tax Credit

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Now part of the American Recovery and Reinvestment Act of 2009 offers a tax credit up to \$8000 for qualified first-time homebuyers.

How this differs from the credit enacted in July of 2008

The biggest change is under the new act, the loan **does not** need to be repaid. This assumes home buyers keep the residence as a primary dwelling. If occupancy changes inside of 3 years, a recapture of the tax credit will apply. This was also true under the previous act. (For exceptions, consult your tax professional)

Highlights

Applies to home purchases on or after Jan. 1, 2009 and before Dec. 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.
- **Does not** need to be repaid. However, there is a recapture provision if occupancy changes inside 3 years from date of purchase. (See Credit Repayment section.)
- CAN be purchased with tax exempt mortgage revenue bonds. (Not available for homes purchased prior to Jan. 1, 2009)
- CAN also be eligible to claim the District of Columbia first-time homebuyer credit for any tax year.
- Can be shared among non-related co-owners.

How the Credit Works

The credit is a true credit with no repayment required. It is exclusive to first-time homebuyers. You are considered a first-time buyer if you have not had a home mortgage for 3 years or more.

How To Claim the Credit

Eligible taxpayers will claim the credit on new IRS Form 5405 to be included with

2009 tax forms. (Same form as previous tax credit) Details can also be obtained at IRS.gov.

Qualifying Home Purchases

Home purchases in the United States between Jan 1, 2009 and before Dec 1, 2009. For new construction, the "purchase date" is considered to be the first date you occupy the completed home. The home may be a house, houseboat, house trailer, cooperative apartment, condominium or other type of primary residence. Vacation homes and rental properties are not eligible.

How is the Credit Amount Determined?

The credit is 10 percent of the purchase price of the home with a maximum available credit of \$8000. This is a per household limit. Qualifying couples filing separate returns would split the credit amount. This credit may be allocated among non-related co-owners of a residence as long as the overall credit does not exceed \$8000 for the single residence.

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) A partial credit of less than \$8000 is available for some taxpayers whose MAGI exceeds the phase-out limits.
- You buy your home from :
 - 1) a related person including your spouse, parent, grandparent, child, or grandchild.
 - 2) a corporation in which you directly or indirectly own more than 50% in value of the outstanding stock of the corporation.
 - 3) a partnership in which you directly or indirectly own more than 50% of the capital interest or profits interest.

- You acquire your home by gift or inheritance.
- You stop using your home as your primary residence. (see Repayment Section)
- You sell your home before the end of the year in which it is purchased.
- You are a non-resident alien.
- Your home is located outside the United States
- 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.

Credit Repayment

You must repay the credit only if the home ceases to be your main home within a 36 month period beginning on the purchase date. This includes situations where you sell the home, convert it to business or rental property, or the home is destroyed, condemned or disposed of under threat of condemnation. Repayment comes as additional tax on the return for the year the home ceases to be your main home. If you sell your home within the 36 month period, repayment is limited to the amount of the gain on the sale.

Exceptions to the Repayment Rule

- If you die, repayment of the credit is not required. If you filed a joint return, your surviving spouse *would be* required to repay his or her half of the credit.
- If the home is transferred as part of a divorce settlement, the occupying party is responsible for any repayment.
- If the home is destroyed, condemned or disposed of under threat of condemnation, AND you acquire a new main home within 2 years of the event, you do not have to repay the credit.

These highlights are provided as a courtesy to my clients. Please consult your tax professional to implement these credits.