

What you should know about the First-Time Homebuyer Tax Credit

The American Recovery and Reinvestment Act of 2009 offers an \$8,000 tax credit for first-time buyers who purchase a home on or after Jan. 1, 2009, and before Dec. 1, 2009. Unlike previous tax credits for first-time buyers, this one doesn't have to be repaid.



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Learn more about the tax credit and other homebuyer opportunities from these Florida Association of Realtors® Web sites:

www.floridarealtors.org

www.media.floridarealtors.org/greattimetobuy

Details of the tax credit include:

- The temporary credit is only available for home purchases made from Jan. 1, 2009, through Nov. 30, 2009, and is equal to 10 percent of the cost of the home, up to a maximum credit of \$8,000. (For example, a home purchased for \$80,000 or more would qualify for the full \$8,000 credit while a \$70,000 home would only qualify for 10 percent, or \$7,000.)
- Buyers claim the credit on their federal tax return to reduce their tax liability. If the credit is more than the taxes owed, the buyer will get a refund check for the taxes owed plus the difference.
- Only first-time homebuyers can take advantage of the tax credit. A first-time buyer is defined under the tax credit as an individual who has not owned a home in the past three years. Eligible properties include anything that will be used as a principal single-family residence - including condos and townhouses.
- There are income guidelines on the credit. Individuals with an adjusted gross income up to \$75,000 (or \$150,000 if filing jointly) are eligible for the full tax credit. The credit is phased down for those earning more and is not available for those with an income above \$95,000 (\$170,000 if filing jointly).
- The new tax credit does not have to be repaid if the buyer stays in the home at least three years. If the home is sold before that, the entire amount of the credit is recaptured on the sale.



Florida Association of Realtors®

NOTE: This document is for informational purposes and should not be construed as tax or legal advice. For specific advice on their own tax situation, consumers should always consult a qualified tax professional.

Understanding the homebuyer tax credit

THE BASICS

Q. What is the new tax incentive?

A. The 2008 \$7,500, repayable credit increased to \$8,000 and the repayment feature was eliminated for 2009 purchasers. Any home purchased for \$80,000 or more qualifies for the full \$8,000 amount. If the house costs less than \$80,000, the credit is 10% of the cost. It is available for the purchase of a principal residence on or after Jan. 1, 2009, and before Dec. 1, 2009.

Q. Who is eligible?

A. Only first-time homebuyers are eligible – those who have not had any ownership interest in a home in the three years previous to the day of the 2009 purchase.

Q. How does a tax credit work?

A. Every dollar of a tax credit reduces income taxes by a dollar. Credits are claimed on an individual's income tax return. A qualified purchaser figures out their total tax owed and then the tax credits are applied to reduce the total tax bill, i.e. if a person has a total tax liability of \$9,500, an \$8,000 credit would wipe out all but \$1,500 of the tax due.

Q. So what happens if the purchaser is eligible for an \$8,000 credit but their entire income tax liability for the year is only \$6,000?

A. If the total tax liability before calculating the credit was \$6,000, the IRS would send the purchaser a check for \$2,000. The refundable amount is the difference between the \$8,000 credit amount and the amount of tax liability, determined by tables the IRS prepares each year.

Q. Is there an income restriction?

A. Yes. The income restriction is based on the tax filing status the purchaser claims when filing his/her income tax return. Individuals filing as Single (or Head of Household) are eligible for the credit if their income is no more than \$75,000. Married couples who file a joint return may have income of no more than \$150,000.

Q. Do individuals with higher incomes lose all the benefit of the credit?

A. Not always. The credit phases out between \$75,000 - \$95,000 for singles and \$150,000 - \$170,000 for married filing jointly. The closer a buyer comes to the maximum phase-out amount, the smaller the credit will be. The law provides a formula to gradually withdraw the credit.

Q. How is "principal residence" defined?

A. A principal residence is where an individual spends most of his/her time (generally defined as more than 50%). Also defined as "owner-occupied" housing, it includes single-family detached housing, condos or co-ops, townhouses or any similar type of new or existing dwelling.

Q. Do I have to repay the 2009 tax credit?

A. There is no repayment.

(continued)

THE PROCESS

Q. How do I apply for the credit?

A. All eligible purchasers simply claim the credit on their IRS Form 1040 tax return. The credit will be reflected on a new Form 5405 that will be attached to the 1040. Form 5405 can be found at www.irs.gov.

Q. Can I use it as part of my downpayment?

A. No. Congress tried hard to devise a mechanism that would make the funds available for closing costs, but found that pre-funding would require cumbersome processes that would, in effect, bring the IRS into the purchase and settlement phase of the transaction. However, Florida recently adopted a \$30.1 million budget for its Florida Homebuyer Opportunity Program, which will help with downpayment assistance for those who qualify for the federal \$8,000 first-time homebuyer tax credit.

MAKING IT WORK

Q. What if I can't settle before Dec. 1?

A. The credit is available for purchases before Dec. 1, 2009. A home is considered as "purchased" when all events have occurred that transfer the title from the seller to the new purchaser. Closings must occur before Dec. 1, 2009 for purchases to be eligible.

Q. Do I have to wait until next year to get the credit?

A. Eligible homebuyers who make their purchase between Jan. 1, 2009 and Dec. 1, 2009 can treat the purchase as if it had occurred on Dec. 31, 2008. Thus, they can claim the credit on their 2008 tax return that was due on April 15, 2009. Filing options include:

1. If you received an extension on your 2008 income tax return, you can still claim the credit as late as Oct. 15, 2009.
2. If you have already filed your 2008 return before the purchase of a home, file an amended 2008 tax return on Form 1040X. (Available at www.irs.gov).
3. If you plan to claim the credit on your 2009 tax return, you can modify your income tax withholding (through employers) or adjust your quarterly estimated tax payments. Individuals subject to income tax withholding would get an IRS Form W-4 from their employer. In many cases their withholding would decrease and their take-home pay would increase. Those who make estimated tax payments would make similar adjustments.

Q. Will I ever have to repay the credit?

A. If you claim the credit but then sell the property within three years of the date of purchase, you are required to pay back the full amount of any credit, including any refund you received from it. A few exceptions apply.

Source: National Association of Realtors®; Massachusetts Association of Realtors®

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