

The First Time Homebuyer Tax Credit...

In 2008, Congress enacted a \$7500 tax credit designed to be an incentive for first-time homebuyers to purchase a home. For 2009, Congress has increased the credit to \$8000 and made several additional improvements. This revised \$8000 tax credit applies to purchases on or after January 1, 2009 and before December 1, 2009.

Tax Credits -- The Basics

1. *What's this new homebuyer tax incentive for 2009?*

The 2008 \$7500 repayable credit is increased to \$8000 and the repayment feature is eliminated for 2009 purchasers. Any home that is purchased for \$80,000 or more qualifies for the full \$8000 amount. If the house costs less than \$80,000, the credit will be 10% of the cost.

2. *Who is eligible?*

Only first-time homebuyers are eligible. A person is considered a first-time buyer if he/she has not had any ownership interest in a home in the three years previous to the day of the 2009 purchase.

3. *How does a tax credit work?*

Every dollar of a tax credit reduces income taxes by a dollar. Credits are claimed on an individual's income tax return. Thus, a qualified purchaser would figure out all the income items and exemptions and make all the calculations required to figure out his/her total tax due. Then, once the total tax owed has been computed, tax credits are applied to reduce the total tax bill. So, if before taking any credits on a tax return, a person has a total tax liability of \$9500, an \$8000 credit would wipe out all but \$1500 of the tax due.

4. *So what happens if the purchaser is eligible for an \$8000 credit but his/her income tax liability is only \$6000?*

This tax credit is what is called a "refundable" credit. Thus, if the eligible purchaser's total tax liability was \$6000, the IRS would send the purchaser a check for \$2000. The refundable amount is the difference between the \$8000 credit amount and the amount of tax liability.

**\$8,000
Incentive**

5. *Is there an income restriction?*

Yes. Individuals filing Form 1040 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.

6. *Do individuals with incomes higher than these limits lose all the benefit?*

The credit phases-out between \$75,000 - \$95,000 for singles and \$150,000 - \$170,000 for married filing joint. 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.

7. *What's the definition of "principal residence?"*

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

8. *Are there restrictions related to the financing on the property?*

Congress eliminated the financing restriction that

applied in 2008 that disallowed the credit if the financing was obtained by means of tax exempt mortgage revenue bonds.

9. *Do I have to repay the tax credit?*

There is no repayment for 2009 tax credits. However, if the home is sold within three years, the credit must be recaptured upon sale.


10. *Do 2008 purchasers still have to repay their tax credit?*

The \$7500 credit in 2008 was more like an interest-free loan. All eligible purchasers who claimed the 2008 credit will still be required to repay it over 15 years, starting with their 2010 tax return.

11. *Can I use the credit amount as part of my downpayment?*

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.

12. *Is there a way to get any cash flow benefits before I file my tax return?*

Any first-time homebuyers who believe they are eligible for all or part of the credit can modify their income tax withholding or adjust their quarterly estimated tax payments. Individuals subject to withholding would get an IRS Form W-4 from their employer... 

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