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## **FIRST-TIME HOME BUYER TAX CREDIT**

### **Frequently Asked Questions**

On February 17, 2009, President Obama signed the American Recovery and Reinvestment Act of 2009 (popularly referred to as the stimulus bill). Included in this law was a replacement of the temporary first-time home buyer tax credit law that President Bush signed July 2008. The 2009 home-buyer tax credit will be available for the purchase of a principle residence **on or after January 1, 2009 through December 1, 2009.**

#### **1. *How does the tax credit work?***

Tax credits are special provisions that reduce income tax liability on a dollar for dollar basis and are claimed on an individual or joint income tax return. In this case, Congress has created a tax credit for first-time homebuyers of any principle residence. The maximum credit amount is \$8,000. Thus, if after figuring out all the income items and exemptions and making all the required additions, subtractions, deductions and other items on a tax return a home buyer had total tax liability of \$9,000, an \$8,000 credit would wipe out all but \$1,000 of the tax due. Alternately, if a tax payer's total tax liability is \$3,000, he or she would receive a refund check from the U.S. Treasury in the amount of \$5,000.

#### **2. *Who can use the new tax credit?***

Only first-time home buyers are eligible to use the credit. A first-time home buyer is defined as an individual who has not had an ownership interest in a principal residence in the previous three years. The 3-year period is measured as of the date of the purchase of the eligible principal residence. Principle residence is defined as any "owner-occupying" housing, including single family homes, condos, co-ops, townhouses, or similar type of dwelling, including houseboats or manufactured homes.

#### **3. *Is there an income restriction?***

Yes. The income restriction is based on the tax filing status the purchaser claims when filing his/her income tax return. Individuals whose form 1040 filing status is Single (or Head of Household) are eligible for the full credit, if their income is no more than \$75,000. Individuals who file a joint return may have an income of no more than \$150,000. The credit phases out for individuals at \$95,000 and joint filers at \$170,000 using a set formula.

#### **4. *How is my "income" determined?***

For most individuals, income is defined and calculated in the same manner as their Adjusted Gross Income (AGI) on their 1040 income tax return. AGI includes items like wages, salaries, interest and dividends, pension and retirement earnings, rental income

and a host of other elements. AGI is the final number that appears on the bottom line of the front page of an IRS Form 1040.

**5. Is the amount of the credit tied to the price of the home?**

Yes. The credit is for 10% of the cost of the home, up to a maximum credit of \$8,000. If a home cost \$65,000, the allowable cost credit would be \$6,500. For all eligible homes purchased for \$80,000 or higher, the allowable credit would be \$8,000. The amount of the credit is the same for all tax payers, married or single.

**6. How do I apply for the credit?**

There is no pre-purchase authorization, application or similar approval process. Eligible purchasers will simply claim the credit on their IRS Form 1040 tax return and will be reflected on a new Form 5405 that will be attached to the 1040. In many, if not most cases, the IRS will be on notice that a purchase has occurred because the settlement officer at the time of purchase is required to report the transaction.

**7. So is there a way to get any cash-flow benefits before I file my 2009 tax return?**

Yes; any first-time homebuyers who believe they would be eligible for all or part of the credit may wish to modify their income tax withholding (through their employers) or to adjust their quarterly estimated tax payments. Individuals subject to income tax withholding would get an IRS Form W-4 from their employer, follow the instructions on the schedules provided and give the completed 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 may make similar adjustments.

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

No.

**9. What changes were made to the Homebuyer Credit from the 2008 Housing and Economic Recovery Act by the American Recovery and Reinvestment Act of 2009?**

There were four substantial changes. First, the maximum amount of the credit was increased to \$8,000, from \$7,500. Second, there is no requirement for the credit to be repaid. Third, the termination date was extended from July 1, 2009 until December 1, 2009. Fourth, a Recapture provision was added – if the home is sold within three years of purchase, the entire amount of the credit is recaptured on sale (with certain exceptions).

**10. I purchased a home between April 9, 2008 and December 31, 2008. Do I still need to repay the credit?**

Yes, if you purchased a home between April 9, 2008 and December 31, 2008 and qualify for the credit under the former law, you do need to repay it. The credit amount is repaid in increments of 6.67% of the credit amount over 15 years, starting with your 2010 tax return. For individuals who took the full \$7,500 credit, the repayment will be about \$502.50. Individuals who claimed a credit of less than \$7,500 will also have a 15-year repayment period and will pay 6.67% of their credit each year. For example, an individual who claimed a credit of \$6,000 will repay \$400.20 a year ( $\$6000 \times .0667$ ). There is not any interest charge applied to outstanding balances.

**NOTE:** The above is for informational purposes only. Please consult a tax professional.

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