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2010 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 was available for the purchase of a principle residence on or after January 1, 2009 through December 1, 2009. On November 6, 2009 President Obama signed a new bill that both extended and expanded the tax credit. **The new bill is in effect December 1, 2009 through April 30, 2010.** The purchase must be under written contract by April 30, 2010 and close by June 30, 2010.

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, and for current homeowners. The maximum credit amount for first-time homebuyers 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. The same terms apply for a current homeowner, although \$6,500 is the maximum credit amount that can be received.

2. Who can use the new tax credit?

First-time home buyers are eligible to receive the \$8,000 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 three-year period is measured as of the date of the purchase of the eligible principal residence. Principle residence is defined as any "owner-occupied" housing, including single-family homes, condos, co-ops, townhouses, or a similar type of dwelling, including houseboats or manufactured homes.

Current homeowners are eligible to receive a \$6,500 credit. A current homeowner is defined as an individual or married couple who has used the home sold, or being sold, as a principal residence consecutively for five of the previous eight years.

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 \$125,000. Individuals who file a joint return may have an income of no more than \$225,000. The credit phases out for individuals at \$145,000 and joint filers at \$245,000 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 percent of the cost of a home, up to a maximum credit of \$8,000 for first-time buyers, and \$6,500 for current home owners. To be eligible for the credit, the home purchased may not exceed \$800,000. 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 for first-time buyers, but remain at \$6,500 for existing homeowners. 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 homebuyer who believes he or she 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 to 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. Consulting a tax professional is advised.

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

No; however, MassHousing (MassHousing.com) is helping Massachusetts homebuyers use the \$8,000 tax credit for their down payment or closing costs. It is called the Tax Credit Loan Program.

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

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