

# Credit Details

- The new Credit is an \$8,000 REFUNDABLE Tax Credit (or up to 10% of the purchase price).
  - So if the property is \$75,000, the credit is only \$7,500. (Assume a property over \$80,000 for the rest of the discussion).
- Refundable means that if your total tax liability in the given year is less than \$8,000, the IRS will send a refund for the balance.

# Refundability – Why it's Important

- Many taxpayers do not have tax liability that exceeds \$8,000.
  - For example, according to the 2008 IRS Tax Tables:
    - A single filer would need \$46,600 in taxable income to have \$8,000 in tax liability.
    - A couple would need \$58,600 in taxable income to have \$8,000 in tax liability.
    - Those with less tax liability will in most cases get a refund meaning they get the full value of the credit.

# Who cannot take the credit?

## If any of the following:

- Your income exceeds the phase-out range. This means joint filers with Modified Adjusted Gross Income (MAGI) of \$170,000 and above and other taxpayers with MAGI of \$95,000 and above.
- You buy your home from a close relative. This includes your spouse, parent, grandparent, child or grandchild.
- You stop using your home as your main home.
- You sell your home before the end of three years.
- You are a nonresident alien.

# First-Time Homebuyer Definition

- Defined as someone who did not own another main home at any time during the three years prior to the date of purchase.
  - For example, if you bought a home on January 15, 2009, you cannot take the credit for that home if you owned, or had an ownership interest in, another home at any time from January 15, 2006 through January 15, 2009.
  - So if the last time you owned a home was 2005, you are eligible for the credit even though it is really not your “first” home.
  - For married joint filers, both must meet the 1<sup>st</sup> time homebuyer test to take the credit on a joint return.

# More on Income Limits

TYPE	INCOME LIMIT	PHASE OUT START
Single Filers	\$95,000	\$75,000
Married Filers	\$170,000	\$150,000

This means that for singles making over \$75,000 and couples making over \$150,000, the credit is proportionately reduced as incomes approach \$95,000 and \$170,000 respectively. So if a couple makes \$165,000, the excess amount is used to create a fraction  $15,000/20,000$  (.75) times the credit amount. 75% or \$6,000 of the credit would be disallowed. They would still get a \$2,000 credit.

# The Home

- Must be the “main home” i.e. principal residence. Which is generally considered to be the home where you spend 50% or more of your time. It can be a condo, Single Family detached, co-op, townhouse or something similar.
- The home must be located in the United States.
- Vacation homes and rental properties are not eligible.
- For new construction, the “purchase date” is the date you occupy the home. So the move in date must be before December 1, 2009.

# Recapture-3 Year Residency

- If the home is sold prior to three years of ownership, the tax credit must be repaid.
  - This is an improvement from the prior credit. That credit needed to be repaid in total over 15 years or the balance had to be repaid on sale.
- This provision is designed to prevent flipping homes in order to get the credit.

# Other Provisions

- The new credit is available to residents of the District of Columbia
- Purchasers who utilize state/local revenue bond financing can now use the credit.
- Purchasers who bought before January 1, 2009 are still subject to the terms of the repayable credit.



# When Can You Claim the Credit?

- It can be claimed on your 2008 Tax Return (to be filed by April 15, 2009), an amended 2008 Tax Return, or your 2009 Tax Return.
- NAR and industry partners tried to get the credit made available at closing but policymakers balked. In addition, it was explained that even if a system could be devised, it would delay closings by several weeks.

# Conclusion

- The new credit is greatly improved compared to the old credit.
- It is a true credit and does not need to be repaid as long as you occupy the home for 3 years.
- NAR estimates that hundreds of thousands of potential buyers will take advantage of the credit.
- For more info on the credit and the 2009 Stimulus legislation visit [http://www.realtor.org/government\\_affairs/gapublic/american\\_recovery\\_reinvestment\\_act\\_home?lid=ronav0019](http://www.realtor.org/government_affairs/gapublic/american_recovery_reinvestment_act_home?lid=ronav0019) or consult your tax adviser.

# CAVEAT

This information is accurate based on information available as of February 19, 2009. As with any tax law change, check with a tax advisor if there are any questions regarding using this provision.