

First-Time Homebuyer Credit

What is it?

The First-Time Homebuyer Credit is a new tax credit for homes purchased (or constructed) in 2008 and 2009. For homes purchased in 2008, the credit operates like an interest-free loan because it must be repaid over 15 years. For homes purchased in 2009, there is no obligation to repay the credit unless the home ceases to be your principal residence within the next 36 months. Both credits are fully refundable even if you do not owe any tax. Thus, if you have no taxable income but qualify as a first time-home buyer, you still may be able to claim the credit for a refund.

Additional information on the credit can be found at the Internal Revenue Service's website. <http://www.irs.gov/newsroom/article/0,,id=204671,00.html>

What is the credit for homes purchased in 2009?

For eligible taxpayers, the credit is 10% of the purchase price of the home up to \$8,000 for either a single taxpayer or a married couple filing a joint return and up to \$4,000 for married persons filing separate returns. The credit is available for homes costing \$80,000 or more and purchased between January 1 and December 31, 2009. If you constructed the home, the purchase date is considered the date that you first occupy the home.

The 2009 credit does not have to be repaid unless the home ceases to be your principal residence within 36 months from the date of purchase. The full amount of the credit received is due as additional tax on the return for year in which the home ceased being your principal residence.

Example: You properly claim the maximum credit of \$8,000 in 2009. If you do not sell the home in the next 36 months, have no further obligations and may retain the full amount of the credit. If, for example, you sell the home in 2010, you must repay the full amount of the credit claimed on your 2010 tax return.

What is the credit for homes purchased in 2008?

For eligible taxpayers, the credit is 10% of the purchase price of the home up to \$7,500 for either a single taxpayer or a married couple filing a joint return and up to \$3,750 for married persons filing separate returns. The credit is available for homes costing \$75,000 or more and purchased after April 8, 2008 and before December 31, 2008. If you constructed the home, the purchase date is considered the date that you first occupy the home.

The credit will be recaptured on Form 1040 as additional tax and repaid in 15 equal annual installments beginning in the second tax year after the year in which the credit is claimed. There are certain circumstances where the credit does not have to be paid in full by you. These exceptions are set forth in IRS Form 5405, and include the transfer of the home as part of a divorce settlement, death, and resale of the home to someone who is not related to you.

Example: You properly claim the maximum credit of \$7,500 in 2008. You must begin repaying the credit by including 1/15 of this amount, or \$500, as an additional tax on your 2010 tax return, and on each return thereafter until 2024.

Who is eligible?

- Taxpayers who have not owned another principal residence in the U.S. at any time during the three years prior to the date of purchase, except that taxpayers affected by Hurricane Katrina who have owned but not used their property as a principal residence within the last three years may be eligible for the credit when they purchase a new principal residence.
- The taxpayer uses the home as his or her principal residence and not as a vacation home or rental property.
- Married taxpayers filing jointly must have a modified adjusted gross income of less than \$150,000. For all other taxpayers, the modified adjusted gross income must be less than \$75,000.
- The taxpayer is a U.S. citizen or resident alien.
- The taxpayer did not buy the home from a close relative, including a spouse, parent, grandparent, child, or grandchild.
- The taxpayer does not sell the home before the end of the year.
- For the 2008 credit, the taxpayer did not claim, or was not eligible to claim, the District of Columbia's first-time homebuyer credit for any taxable year.
- For the 2008 credit, the financing for the purchase of the home did not come from tax-exempt mortgage revenue bonds.

How is the credit claimed?

The credit is claimed on IRS Form 5405 (<http://www.irs.gov/pub/irs-pdf/f5405.pdf>.) and on line 69 of your Form 1040. If you filed your 2008 or 2009 tax return before learning about the credit, you can file an amended tax return to take advantage of it. In addition, if you purchased your home in early 2009 and claimed the \$7,500 first-time homebuyer credit, you can file an amended return to take advantage of the expanded credit for 2009.