

President Obama signs Home Buyer Tax Credit Extension

RISMEDIA, November 6, 2009—President Barack Obama has approved the first-time homebuyer tax credit extension which will extend the tax credit until April 30, 2010.

The extension is part of a \$24 billion economic stimulus bill that will extend the \$8,000 tax credit for homebuyers who are purchasing their first home from the current November 30 deadline and expands the program to offer a credit of \$6,500 to homeowners who have lived in their current home for at least five years and are seeking to relocate.

The following details apply to the homebuyer tax credit expansion:

Who is Eligible

- First-time homebuyers, who are defined by the law as buyers who have not owned a principal residence during the three-year period prior to the purchase, may be eligible for up to an \$8,000 tax credit.
- Existing homeowners who have been residing in their principal residence for five consecutive years out of the last eight and are purchasing a home to be their principal residence ("repeat buyer"), may be eligible for up to a \$6,500 tax credit.
- All U.S. citizens who file taxes are eligible to participate in the program.

Income Limits

- Homebuyers who file as single or head-of-household taxpayers can claim the full credit (\$8,000 for first-time buyers and \$6,500 for repeat buyers) if their modified adjusted gross income (MAGI) is less than \$125,000.
- For married couples filing a joint return, the combined income limit is \$225,000.
 - Single or head-of-household taxpayers who earn between \$125,000 and \$145,000, and married couples who earn between \$225,000 and \$245,000 are eligible to receive a partial credit.
 - The credit is not available for single taxpayers whose MAGI is greater than \$145,000 and married couples with a MAGI that exceeds \$245,000.

Effective Dates

- The eligibility period for the tax credit is for homes purchased after Nov. 6, 2009, and before May 1, 2010. However, home purchases subject to a binding sales contract signed by April 30, 2010, will qualify for the tax credit provided closing occurs prior to July 1, 2010.

Types of Homes that Qualify

- All homes with a purchase price of less than \$800,000 qualify, including newly-constructed or resale, and single-family detached, townhomes or condominiums, provided that the home will be used as their principal residence. Vacation home and rental property purchases do NOT qualify.

Tax Credit is Refundable

- A refundable credit means that if the amount of income taxes you owe is less than the credit amount you qualify for, the government will send you a check for the difference.
- For example:
 - A first-time buyer who qualifies for the full \$8,000 credit who owes \$5,000 in federal income taxes would pay nothing to the IRS and receive a \$3,000 payment from the government. If you are due to receive a \$1,000 refund, you would receive \$9,000 (\$1,000 plus the \$8,000 first-time homebuyer tax credit).
 - A repeat buyer who owes \$5,000 would pay nothing to the IRS and receive \$1,500 back from the government. If you are due to get a \$1,000 refund, you would get \$7,500 (\$1,000 plus the \$6,500 repeat buyer tax credit).
- All qualified homebuyers can take the tax credit on their 2009 or 2010 income tax return.

Payback Provisions

The tax credit is a true credit. It does not have to be repaid unless the home owner sells or stops using the home as their principal residence within three years after the purchase.

The www.federalhousingtaxcredit.com site is being updated. Check the site next week for more detailed information on the new tax credit.

For more information, visit www.nahb.org.

Look below for frequently asked questions

Frequently Asked Questions on the Homebuyer Tax Credit Changes

Question: Existing homeowner credit: Must the new house cost more than the old house?

Answer: No. Thus, for example, individuals who move from a high cost area to a lower cost area who meet all eligibility requirements will qualify for the \$6500 credit.

Question: I am an existing homeowner. On October 25, 2009, I signed a contract to purchase a new home. I have lived in my current home for more than 5 consecutive years and am within the new income limits. I will go to settlement on November 20. If President Obama has signed the bill by the time I go to settlement, will I qualify for the new \$6500 tax credit?

Answer: Yes. The existing homeowner credit goes into effect for purchases after the date of enactment (when the bill is signed). There is no reference to the date of contract for the new credit. The provision looks solely to the date of purchase, which is generally the date of settlement.

Question: I am a first-time homebuyer but was not within the prior income limits at the time I entered into my contract to purchase on October 30, 2009. I will be covered, however, by the new income limits. If the new rules have been signed into law by the time I go to settlement, will I be eligible for a credit?

Answer: Yes. The new income limitations go into effect as soon as the President has signed the bill. The income limit and other eligibility rules will look to your status as of the date of purchase, which is the settlement date. So if the new rules have been signed when you go to settlement, you should be eligible for the credit (or a portion of the credit if you're within the phase-out range).

Question: I am an eligible existing homeowner. I have a fair amount of equity in my home. I have found a home with a nonnegotiable price of \$825,000. Will I be able to use any of the \$6500 tax credit?

Answer: No. The \$800,000 cap on the cost of the purchased home is firm at \$800,000. Any amount above \$800,000 makes the home ineligible for any portion of the credit. The \$800,000 is an absolute ceiling.

Question: I owned my home for 10 years, but sold it two years ago year and have been renting since. If I purchase a home, will I be eligible for the \$6500 tax credit if I meet all the other eligibility tests?

Answer: Yes. Because you lived in the home for more than 5 consecutive years of the previous 8, you will qualify for the \$6500 credit. For example, Say John and his wife bought a home in 2000 and lived there until 2008 when he got a divorce. Whether John has been renting or bought in the interim, he **WOULD INDEED** be eligible for the credit because he owned a home and occupied it as his principal residence for 5 consecutive years out of the last 8 years. The keyword here is "consecutive." As long as he lived in that house for 5 years straight what he did since 3 years doesn't impact eligibility.

Question: I am an eligible first time homebuyer. I entered into a contract to purchase on November

1, 2009. Do I have to go to closing before December 1? How does the extension date affect me?

Answer: You do not have to close before December 1. Once the legislation has been signed, it will be as if the Nov 30 date had never existed. Therefore, so long as the contract settles before April 30 (or July 1, worst case), the purchaser will be eligible for the credit.