UPDATED
EXPANDED

What you should know about the
Homebuyer Tax Credit

As part of economic stimulus efforts, Congress and President Obama have extended and expanded the $8,000 tax credit for first-time homebuyers. First-time buyers now have until April 30, 2010, to sign a home purchase contract and qualify for the credit. Plus, many existing homeowners also qualify for a tax credit of up to $6,500 on a home purchase.

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Learn more about the tax credit and other homebuyer opportunities from these Florida Realtors® Web sites:

www.floridarealtors.org/AboutFar/homebuyercenter/index.cfm

www.media.floridarealtors.org/greattimetobuy

First-time Homebuyers

Most details for first-time homebuyers remain the same. The maximum tax credit is still $8,000 ($4,000 for married individuals filing separately), and anyone who has not owned a home within three years is considered a "first-time buyer."

- A purchase must be under contract by April 30, 2010, and must close no later than June 30, 2010. The maximum home value purchased cannot exceed $800,000.
- After Dec. 1, 2009, income limits rise to $125,000 for singles and $225,000 for married couples; up from the previous limits of $75,000 for singles and $150,000 for married couples. The tax credit phases out incrementally at each $20,000 increase in income.

Current Homeowners

An existing homeowner who purchases another home may now claim a tax credit of up to $6,500. To qualify, that owner must have owned and used the same residence as a principal residence for any consecutive five-year period in the previous eight years.

- Personal income limits, maximum home value, and contract/closing deadlines are the same as those for first-time homebuyers.

The tax credit does not have to be repaid if the buyer stays in the home at least three years. If the home is sold before that, the entire amount of the credit is recaptured on the sale.

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NOTE: This document is for informational purposes and should not be construed as tax or legal advice. For specific advice on their own tax situation, consumers should always consult a qualified tax professional.

Understanding the Homebuyer Tax Credit

- As part of the extended and expanded tax credit, a buyer now is required to attach documentation about the home purchase to his income tax return. To minimize tax abuse going forward, buyers won't receive the credit without submitting proof to the IRS.

- The homebuyer tax credit is collected as part of the normal income tax process. As a credit, it's calculated separately from an individual's income tax, and paid regardless of taxes owed or withheld from income. For more information on the tax credit, go to the IRS website at: **www.irs.gov**. For specific advice on the tax credit and your own tax situation, you should always consult a tax professional.

THE BASICS

Q. What is the new tax credit, and what is the new qualifying period?

A. The temporary credit is equal to 10% of the cost of the home, up to a maximum of $8,000. It is only available for home purchases that go to contract by April 30, 2010, and that close no later than June 30, 2010.

Q. How does a tax credit work?

A. Every dollar of a tax credit reduces income taxes by a dollar. Credits are claimed on an individual's income tax return. A qualified purchaser figures out the total tax owed and then the tax credits are applied to reduce the total tax bill; i.e. if a person has a total tax liability of $9,500, an $8,000 credit would wipe out all but $1,500 of the tax due.

Q. So what happens if the purchaser is eligible for an $8,000 credit but their entire income tax liability for the year is only $6,000?

A. If the total tax liability before calculating the credit was $6,000, the IRS would send the purchaser a check for $2,000. The refundable amount is the difference between the $8,000 credit amount and the amount of tax liability, determined by tables the IRS prepares each year.

Q. Is there an income restriction on the new tax credit?

A. Yes. The income restriction is based on the tax filing status the purchaser claims when filing his/her income tax return. Individuals filing as Single (or Head of Household) are eligible for the credit if their income is no more than $125,000. Married couples who file a joint return may have income of no more than $225,000.

Q. Do individuals with higher incomes lose all the benefit of the credit?

A. Not always. The credit phases down for those earning more than the income guidelines, and isn't available for those with an income above $145,000 (or $245,000 if filing jointly.) The law provides a formula to gradually withdraw the credit.

Q. How is "principal residence" defined?

A. A principal residence is where an individual spends most of his/her time (generally defined as more than 50%). Also defined as "owner-occupied" housing, it includes single-family detached housing, condos or co-ops, townhouses or any similar type of new or existing dwelling.

Q. How does the existing homeowner tax credit work?

A. Existing homeowners who have lived in their current homes for five consecutive years out of the past eight are eligible for up to a $6,500 tax credit when they buy another home within the qualifying period. The qualified buyer may be a move-up buyer, downsizing and/or a repeat buyer. Repeat buyers do not have to purchase a home that is more expensive than their previous or current home to qualify for the tax credit.

(continued)

THE PROCESS

Q. How do I claim the tax credit?

A. All eligible purchasers simply claim the credit on their federal income tax return. Specifically, the credit will be reflected on a new IRS Form 5405 that will be attached to the IRS Form 1040 tax return. You cannot claim the credit on Form 5405 for an intended purchase for some future date; it must be a completed purchase. Homebuyers must attach a copy of their HUD-1 settlement form (closing statement) to Form 5405 as proof of the completed home purchase. Form 5405 can be found at: **www.irs.gov**

Q. Can I use it as part of my downpayment?

A. No. Congress tried to find a way to make the funds available for closing costs, but found that pre-funding would, in effect, bring the IRS into the purchase and settlement phase of the transaction. However, the Florida Homebuyer Opportunity Program has a $30.1 million budget. And, the law implementing the program allows it to be automatically extended if the federal tax credit is extended; therefore, the Florida Homebuyer Opportunity Program can continue to help with downpayment assistance for those who qualify for the extended federal $8,000 first-time buyer tax credit as long as funding is available. But the Florida program is restricted to first-time buyers, and the previously established income limits of $75,000 for a single tax filer and $150,000 for those filing jointly still apply.

MAKING IT WORK

Q. If I buy a home in 2009 or 2010, can I apply the credit against my '08 or '09 return?

A. Yes. The law allows taxpayers to "elect" to treat qualified home purchases in 2009 or 2010 as if the purchase happened on Dec. 31, 2008 (or if in 2010, on Dec. 31, 2009.) This means that the previous year's income limit applies and the election accelerates when the credit can be claimed. A benefit of this is that a homebuyer in 2009 or 2010 will know their prior year income limit, which helps the buyer know whether the income limit will reduce their credit amount. A taxpayer buying a home who wants to claim it on his previous year tax return, but who has already submitted the return to the IRS, may file an amended return claiming the tax credit using Form 1040X. Consult a tax professional to find out the appropriate steps.

Q. Will I ever have to repay the credit?

A. If you claim the credit but then sell the property within three years of the date of purchase, you're required to pay back the full amount of any credit, including any refund you received from it. A few exceptions may apply.

Source: National Association of Realtors®; National Association of Home Builders

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