



New \$8,000 First-Time Homebuyer Tax Credit

It's official. The American Recovery and Reinvestment Act of 2009 has authorized a tax credit of up to \$8,000 for qualified first-time homebuyers purchasing a principal residence on or after January 1, 2009 and before December 1, 2009 (eleven months).

While the finite points of the new law are still being ironed out, the following are some of the more frequently asked questions and answers that you can share with prospective buyers. As always, since each buyer's situation is unique, please refer them to their tax advisor for interpretation.

Q: What's the definition of a first-time homebuyer for the purpose of this law?

A: The law defines a first-time homebuyer as a buyer who has not owned a principal residence during the three-year period prior to the purchase (the date on the HUD-1 is the determining factor). For married taxpayers, the law tests the homeownership history of both the home buyer and his/her spouse.

For example, if you have not owned a home in the past three years but your spouse did, neither of you would qualify for the tax credit. However, if an unmarried couple jointly buys a home and one person owned a home in the past three years but the other did not, that person can designate the tax credit to the other person to claim on his/her individual tax return. The same is true if a parent (who already owns a home) co-signed on a loan with his/her child. The child could claim the first-time homebuyer tax credit.

Q: If someone owns a vacation home but doesn't live in it as a primary residence, would they qualify for the tax credit?

A: Yes. Owning a vacation home, second home, or rental that's not used as a primary residence does not disqualify the buyer if he/she can prove that it hasn't been used as a primary residence for the previous three years.

Q: Is a tax credit the same as a tax deduction?

A: No. A tax credit is a dollar-for-dollar reduction in the amount of tax the taxpayer owes. If someone owed \$8,000 in federal income taxes and received the \$8,000 tax credit, he would owe nothing to the IRS for that filing period.

Q: How is the amount of the tax credit calculated?

A: The tax credit is equal to 10 percent of the purchase price of the home, up to a maximum of \$8,000.

Q: Are there income limits for claiming the tax credit?

A: Yes. The credit is reduced for buyers with a modified adjusted gross income (MAGI) of more than \$75,000 (filing single) and \$150,000 for married taxpayers filing a joint return. There is no tax credit for taxpayers with MAGI of more than \$95,000 (single) or \$170,000 (married) and is reduced proportionally for MAGIs between these amounts.

Q: How do you determine your modified adjusted gross income (MAGI)?

A: Modified adjusted gross income is your adjusted gross income (your total income for the year), minus certain deductions called "adjustments" but before itemized deductions. On IRS Form 1040, it's found on line 37.

Q: If my modified adjusted gross income (MAGI) is over the limit, can I receive any tax credit?

A: Possibly. It depends on your income. Here's where the formula gets deep. Suppose a buyer has a modified adjusted gross income of \$88,000 which exceeds the \$75,000 limit by \$13,000. Dividing \$13,000 by \$20,000 (the formula) yields 0.65. When you subtract 0.65 from 1.0, the result is 0.35. If you multiply \$8,000 by 0.35 means that the buyer is eligible for a partial tax credit of \$2,800.

Q: How does this 2009 homebuyer tax credit differ from the one last year?

A: The greatest difference is that the 2009 tax credit does not have to be repaid. Due to its repayment requirement, the 2008 credit was essentially an interest-free fifteen-year loan. The new tax credit requires homeowners to live in the home for at least three years or face repaying the entire credit amount. Some exceptions apply.

Q: What types of homes qualify for the tax credit?

A: The definition of principal residence is identical to the one used to determine whether you may qualify for the \$250,000 / \$500,000 capital gain tax exclusion for principal residences. These include single-family detached homes, attached housing, like condos and townhomes, manufactured/mobile homes, and houseboats.

Q: How do I claim the tax credit?

A: When filing your federal income tax return, complete and attach Form 5405 to determine the tax credit amount, and claim that amount on Line 69 of the 1040 form. No other applications or forms are required.

Q: This tax credit is said to be "refundable." What does that mean?

A: When a tax credit is refundable it means that the credit can be claimed even if the taxpayer has little or no federal income tax liability to offset. For example, if a first-time homebuyer had a tax liability of \$6,000 and received a tax credit for \$8,000, the taxpayer would receive a check for \$2,000. ■

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