

## Four Things Consumers Need to Know About the New 2009 - 2010 Homebuyer Tax Credit Extension

*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.*

### 1. Who are eligible homebuyers? Has eligibility been expanded to include existing homeowners?

Eligible homebuyers now come in 2 categories:

1. *1<sup>st</sup>-Time Homebuyers.* Any person who has not owned a principal residence in the past 3 years may qualify as a 1st-time homebuyer, subject to income restrictions (greatly increased, see #2, below).
2. *Long-Time Residents of Same Principal Residence.* Someone who has owned a home and occupied it as the principal residence for any consecutive 5-year period during the last 8 years may also be eligible for a credit, also subject to the new income ceilings. This does include current homeowners, so long as the home was both owned and occupied by the taxpayer for at least 5 consecutive years.

### 2. What are the new maximum income levels?

1. *1<sup>st</sup>-Time Homebuyers.* The Modified Adjusted Gross Income limit is now \$125k for singles, \$225k for couples.
2. *Long-Time Residents of Same Principal Residence.* Same: \$125k for singles, \$225k for couples.

"Modified Adjusted Gross Income" (MAGI) is defined by the IRS. To find it, a taxpayer must first determine "Adjusted Gross Income" (AGI). AGI is total income for a year minus certain deductions (known as "adjustments" or "above-the-line deductions"), but before itemized deductions from Schedule A or personal exemptions are subtracted. On Forms 1040 and 1040A, AGI is the last number on page 1 and first number on page 2 of the form. For Form 1040-EZ, AGI appears on line 4 (as of 2007). Note that AGI includes all forms of income including wages, salaries, interest income, dividends and capital gains.

To determine modified adjusted gross income (MAGI), add to AGI certain amounts such as foreign income, foreign-housing deductions, student-loan deductions, IRA-contribution deductions and deductions for higher-education costs. Singles cannot make more than \$125,000 in MAGI, and married couples cannot make not more \$225,000 in order to get the maximum credit (see #3, below). Partial credit is available for those with MAGI between \$125k to \$145k (\$225k-\$245k for joint filers).

### 3. Has the credit amount been increased?

No. But the maximum credit amount is different depending on whether the taxpayer is a 1<sup>st</sup>-Time or Non-1<sup>st</sup>-Time Homebuyer.

1. *1<sup>st</sup>-Time Homebuyers.* Full credit is still \$8,000\* (\$4,000 if married filing separately).

2. *Long-Time Residents of Same Principal Residence.* Full credit is \$6,500\* (\$3,250 if married filing separately).

You will get this money in the form of a Federal Tax Refund, just as always. Also, though it is still a true credit, as opposed to a loan (recall the 2008 version), recapture or repayment would still be required if you sold your home within 36 months of purchase.

\* \$8,000/\$6,500 or 10% of purchase price, whichever is less. The 10% figure applies only when the purchase price is less than \$80,000/\$65,000.

#### **4. What housing qualifies as a Principal Residence purchase?**

The date of purchase has been extended to July 1, 2010, so long as a binding P&S agreement was executed (signed) by April 30, 2010.

As before, single family homes, condos, townhouses, and co-ops qualify so long as they are used as the taxpayer's principal residence. Homes purchased last year do not qualify for this program. Also, sales between immediate family members are ineligible. It is also important to note that the purchase price of the home cannot exceed \$800,000.

Also, sales between immediate family members are ineligible.

This Q&A is intended to provide a quick overview. There are numerous other provisions in the new credit, and homebuyers should understand them clearly before they make any decision regarding their eligibility.

# Fact Sheet

## 2009-2010 Home Buyer Federal Tax Credit

### Who is Eligible

- First-time home buyers, 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 home owners 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

- Home buyers 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 home buyer 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 home buyers 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.

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