

First-Time Homebuyer Tax Credit: Frequently Asked Questions

1. What's this new homebuyer tax incentive for 2009?

The \$7,500 repayable credit introduced in 2008 is increased to \$8,000 and the repayment feature is eliminated for 2009 purchasers. Any home that is purchased for \$80,000 or more qualifies for the full \$8,000 amount. If the house costs less than \$80,000, the credit will be 10 percent of the cost.

2. Who is eligible?

Only first-time homebuyers are eligible. A person is considered a first-time buyer if he/she has not had any ownership interest in a home in the three years previous to the day of the 2009 purchase.

3. Is there an income restriction?

Yes. The income restriction is based on the tax filing status the purchaser claims when filing his/her income tax return. Individuals filing Form 1040 as single (or head of household) are eligible for the credit if their income is no more than \$75,000. Married couples who file a Joint return may have income of no more than \$150,000.

4. Do individuals with incomes higher than the \$75,000 or \$150,000 limits lose all the benefit of the credit?

Not always. The credit phases out between \$75,000-\$95,000 for singles and \$150,000-\$170,000 for those married and filing jointly. The closer a buyer comes to the maximum phase-out amount, the smaller the credit will be. The law provides a formula to gradually withdraw the credit. Thus, the credit will disappear after an individual's income reaches \$95,000 (single return) or \$170,000 (joint return).

5. Are there restrictions on the location of the property?

Yes. The home must be located in the United States. Property located outside the U.S. is not eligible for the credit.

6. Are there restrictions related to the financing for the mortgage on the property?

In 2009, most financing arrangements are acceptable and will not affect eligibility for the credit. Congress eliminated the financing restriction that applied in 2008.

7. How do I apply for the credit?

There is no pre-purchase authorization, application or similar approval process. All eligible purchasers simply claim the credit on their IRS Form 1040 tax return. The credit will be reflected on a new Form 5405 that will be attached to the 1040. Form 5405 can be found at www.irs.gov.

8. So I can't use the credit amount as part of my downpayment?

No. Congress tried hard to devise a mechanism that would make the funds available for closing costs, but found that pre-funding would require cumbersome processes that would, in effect, bring the IRS into the purchase and settlement phase of the transaction.

9. What if I purchase later this year but can't get to settlement before Dec. 1?

The credit is available for *purchases* before Dec. 1, 2009. A home is considered as "purchased" when all events have occurred that transfer the title from the seller to the new purchaser. Thus, closings *must* occur before Dec. 1, 2009, for purchases to be eligible for the credit.

10. I know there is no repayment requirement for the \$8,000 credit. Will I ever have to repay any of the credit back to the government?

One situation *does* require a recapture payment back to the government. If you claim the credit but then sell the property within 3 years of the date of purchase, you are required to pay back the full amount of any credit, including any refund you received from it. A few exceptions apply. Note that this same 3-year recapture rule applies, as well, to the \$7,500 credit available for 2008. This provision is designed as an anti-flipping rule.

11. What if I die or get divorced or my property is ruined in a natural disaster within the 3 years?

The repayment rules are eased for many circumstances. If the homeowner who used the credit dies within the first three years of ownership, there is no recapture. Special rules make adjustments for people who sell homes as part of a divorce settlement, as well. Similarly, adjustments are made in the case of a home that is part of an involuntary conversion.