The 2009 Homebuyers Tax Credit

What's the new 2009 homebuyer's tax incentive?

The 2009 first time homebuyer tax incentive allows qualifying buyers a $8,000 tax credit for the purchase of a principal residence on or after January 1, 2009 and before December 1, 2009. Any home that is purchased for $80,000 or more is qualified for the full $8,000 amount. Thus, if an individual purchased a home for $75,000, the credit would be $7,500.

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.

How does a Tax Credit work?

Every dollar of the tax credit reduces income taxes by dollar. Credits are claimed on an individual's income tax return. Thus a qualified purchaser would figure out all the income items and exemptions and make all the calculations required to calculate his/her tax due. Then, once the tax owed has been computed, tax credits are applied to reduce the total tax bill. So, if before taking any credits on a tax return a person has total tax liability of $9,500, an $8,000 credit would wipe out all but $1,500 of the tax due ($9,500-$8,000=$1,500)

What if the Tax Credit is greater than the tax owed?

This tax credit is what's called a "refundable" credit. Thus, if the eligible purchaser's total tax liability 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 ($8,000-$6,000=$2,000)

Does the Tax Credit have to be repaid?

Only if the home is sold within three years of purchase. In this case the entire credit is recaptured on sale.

What's the definition of a "principal residence"?

Generally, a principal residence is the home where an individual spends most of his/her time (generally defined as more than 50%), It is also defined as "owner occupied" housing. The term includes single family detached housing, condos or co-ops, townhouses or any similar type of new or existing dwelling. Even some houseboats or manufactured homes count as principal residences.

Are there restrictions on the location of the property?

Yes, the home must be located in the United States. Property located outside the US is not eligible for the Credit.

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 1040A 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.

Are all benefits lost if income exceeds the limits?

The credits phase-out between $75,000-$95,000 for singles and $150,000-$170,000 for married filing a joint return. 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).

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For example, if a married couple had income of $165,000, their credit would be reduced by 75% as shown:

Couples income	**$165,000**
Income Limit	**$150,000**
Excess Amount	**$ 15,000**

The excess income amount ($15,000 in this example) is used to form a fraction. The numerator of the fraction is the excess income amount ($150,000). The denominator is $20,000 (specified by the statute).

In this example, the *disallowed* portion of the credit is 75% of $8,000 or $6,000 ($15,000/$20,000=75%x $8,000-$6,000)

Stated another way, only 25% of the credit amount would be allowed. In this example, the *allowable credit* would be $2,000.

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.

Can I use the credit on my 2008 tax return?

You'll have a helpful choice that might speed up process. Eligible homebuyers who make their purchase between January 1, 2009 and December 1, 2009 can treat the purchase as if it had occurred on December 31, 2008. Thus, they can claim the credit on their 2008 tax return that is due on April 15, 2009. They actually have three filing options.

- **If they purchase between January 1, 2009 and April 15, 2009, they can claim the $8,000 credit on the 2008 return due on April 15.**
- **They can extend their 2008 income tax filing until as late as October 15, 2009. (The IRS grants automatic extension, but the taxpayer must file for the extension.) See www.irs.gov for instructions for instructions on how to obtain an extension.**
- **If they have filed their 2008 return before they purchase the home, they may file an amended 2008 tax return on Form 1040X (Form 1040X is available at www.irs.gov)**

Of course, 2009 purchasers will have the option of claiming the tax credit for the 2009 purchase on their 2009 tax return. Their 2009 return is due April 15, 2010.