

Tax Credits for Home Buyers

Tax Credit in General

For first time homebuyers, there is a refundable credit equal to 10 percent of the purchase price up to a maximum of \$8,000 (\$4,000 if married filing separately). A first-time homebuyer is an individual who, with his or her spouse if married, has not owned any other principal residence for three years prior to the date of purchase of the new principal residence for which the credit is being claimed.

There are several situations in which a taxpayer cannot claim the credit:

- The taxpayer is a nonresident alien;
- The taxpayer purchases a home located outside the United States;
- The taxpayer sells the home or if it stops being the taxpayer's principal residence in the year the taxpayer purchased the home;
- The taxpayer receives the home, or any portion of the home, as a gift or as an inheritance; and
- The taxpayer exceeds the income limits.

The Worker, Homeownership, and Business Assistance Act of 2009 extended and expanded the tax credit for first time homebuyers that had been created in 2008. The new law extends the deadline for qualifying home purchases from Nov. 30, 2009, to April 30, 2010. If a buyer enters into a binding contract by April 30, 2010, the buyer has until June 30, 2010, to settle on the purchase.

Members of the Armed Forces and certain federal employees serving outside the U.S. have an extra year to buy a principal residence in the U.S. and still qualify for the credit. An eligible taxpayer must buy or enter into a binding contract to buy a home by April 30, 2011, and settle on the purchase by June 30, 2011.

Purchases made after Nov. 6, 2009

Taxpayers should be aware of some changes to the law that apply to home purchases after Nov. 6, 2009, the date of enactment of the new law.

The new law expands the tax credit to include not just first-time buyers but also long-time residents who buy a new principal residence. They are eligible for a credit of 10 percent of the purchase price up to a maximum credit of \$6,500. A long-time resident is an individual who, with his or her spouse if married, has owned and used the same home as a principal residence for any period of 5 consecutive years during the 8-year period ending on the date of purchase of the new principal residence for which the credit is being claimed.

Income Limitation

For people who purchase homes after Nov. 6, the full credit will be available to taxpayers with a modified adjusted



gross income (MAGI) up to \$125,000, or \$225,000 for joint filers. MAGI is your adjusted gross income plus the total of certain foreign earned income. Those with MAGI between \$125,000 and \$145,000, or \$225,000 and \$245,000 for joint filers, are eligible for a reduced credit. Those with higher incomes do not qualify.

However, for homes purchased before Nov. 7, 2009, existing income limits remain in place. The full credit is available to taxpayers with MAGI up to \$75,000, or \$150,000 for joint filers. Those with MAGI between \$75,000 and \$95,000, or \$150,000 and \$170,000 for joint filers, are eligible for a reduced credit. Those with higher incomes do not qualify.

Several new restrictions apply to purchases that occur after Nov. 6:

- Dependents are not eligible to claim the credit;
- No credit is available if the purchase price of a home is more than \$800,000; and
- A purchaser must be at least 18 years of age on the date of purchase.

Credit Claimed on a 2009 or 2010 Tax Return

For all qualifying purchases in 2010, taxpayers have the option of claiming the credit on either their 2009 or 2010 tax returns.

A new version of Form 5405, First-Time Homebuyer Credit, is expected to be available by Jan. 15, 2010, for taxpayers who purchased a home after Nov. 6; this new version of the form must be used to claim the credit. Likewise, taxpayers claiming the credit on their 2009 returns, no matter when the house was purchased, must also use the new version of Form 5405. Taxpayers who claim the credit on their 2009 tax return will not be able to file an electronic return, but instead will need to file a paper return.

Credit Claimed on a 2008 Tax Return

The maximum credit was originally \$7,500 (\$3,750 if married filing separately). A taxpayer who chose to claim the credit on the 2008 tax return for a home purchased in 2009 and who also did not use the February 2009 revision of Form 5405 may now be able to claim the additional \$500 on an amended 2008 tax return.

