



# Buyer Report

## \$8,000 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).

**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 homebuyer 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 does not live in it as their primary residence, would they qualify for the tax credit?**

A: Yes. Owning a vacation home, second home, or rental that is not used as a primary residence does not disqualify the buyer if he/she can prove that it has not 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. (Line 37 on IRS Form 1040)

**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 2009 tax credit does not have to be repaid. The repayment requirement made the 2008 credit essentially an interest-free 15-year loan. The new tax credit requires homeowners to live in the home for at least 3 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. Claim that amount on Line 69 of the 1040 form.

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

A: When a tax credit is refundable, 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 with a tax liability of \$6,000 received an \$8,000 tax credit, the taxpayer would receive a refund check for \$2,000.

