

First-Time Home Buyer Tax Credit



Up to \$8,000 for qualified first-time home buyers purchasing a principal residence. The tax credit now applies to sales occurring on or after January 1, 2009 and on or before April 30, 2010. However, in cases where a binding sales contract is signed by April 30, 2010, a home purchase completed by June 30, 2010 will qualify.



Who is eligible to claim the tax credit?

First-time home buyers purchasing any kind of home—new or resale—are eligible for the tax credit. Persons who are claimed as dependents by other taxpayers or who are under age 18 are not qualified for the tax credit program.

What is the definition of a first-time home buyer?

The law defines “first-time home buyer” as a buyer who has not owned a principal residence during the three-year period prior to the purchase. For married taxpayers, the law tests the homeownership history of both the home buyer and his/her spouse.

For example, if you have not owned a home in the past three years but your spouse has owned a principal residence, neither you nor your spouse qualifies for the first-time home buyer tax credit. However, IRS Notice 2009-12 allows unmarried joint purchasers to allocate the credit amount to any buyer who qualifies as a first-time buyer, such as may occur if a parent jointly purchases a home with a son or daughter. Ownership of a vacation home or rental property not used as a principal residence does not disqualify a buyer as a first-time home buyer.

How is the amount of the tax credit determined?

The tax credit is equal to 10 percent of the home's purchase price up to a maximum of \$8,000.

What types of homes qualify for the tax credit?

Any home that will be used as a principal residence will qualify for the credit, provided the home is purchased for a price less than or equal to \$800,000. This includes single-family detached homes, attached homes like townhouses and condominiums, manufactured homes (also known as mobile homes) and houseboats. 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.

It is important to note that you cannot purchase a home from, among other family members, your ancestors (parents, grandparents, etc.), your lineal descendants (children, grandchildren, etc.) or your spouse or your spouse's family members. Please consult with your tax advisor for more information. Also see IRS Form 5405.

Are there any income limits for claiming the tax credit?

Yes. The income limit for single taxpayers is \$125,000; the limit is \$225,000 for married taxpayers filing a joint return. The tax credit amount is reduced for buyers with a modified adjusted gross income (MAGI) above those limits. The phaseout range for the tax credit program is equal to \$20,000. That is, the tax credit amount is reduced to zero for taxpayers with MAGI of more than \$145,000 (single) or \$245,000 (married) and is reduced proportionally for taxpayers with MAGIs between these amounts.

Instead of buying a new home from a home builder, I hired a contractor to construct a home on a lot that I already own. Do I still qualify for the tax credit?

Yes. For the purposes of the home buyer tax credit, a principal residence that is constructed by the home owner is treated by the tax code as having been “purchased” on the date the owner first occupies the house. In this situation, the date of first occupancy must be on or after January 1, 2009 and on or before April 30, 2010 (or by June 30, 2010, provided a binding sales contract was in force by April, 30, 2010).

In contrast, for newly-constructed homes bought from a home builder, eligibility for the tax credit is determined by the settlement date.

I am not a U.S. citizen. Can I claim the tax credit?

Maybe. Anyone who is not a nonresident alien (as defined by the IRS), who has not owned a principal residence in the previous three years and who meets the income limits test may claim the tax credit for a qualified home purchase. The IRS provides a definition of “nonresident alien” in IRS Publication 519.

Is a tax credit the same as a tax deduction?

No. A tax credit is a dollar-for-dollar reduction in what the taxpayer owes. That means that a taxpayer who owes \$8,000 in income taxes and who receives an \$8,000 tax credit would owe nothing to the IRS.

A tax deduction is subtracted from the amount of income that is taxed. Using the same example, assume the taxpayer is in the 15 percent tax bracket and owes \$8,000 in income taxes. If the taxpayer receives an \$8,000 deduction, the taxpayer's tax liability would be reduced by \$1,200 (15 percent of \$8,000), or lowered from \$8,000 to \$6,800.

How do I claim my tax credit? Do I need to complete a form or application?

For answers to these questions and more please visit www.federalhousingtaxcredit.com or www.foxcu.org.

Information source: www.federalhousingtaxcredit.com.
Reviewed by WIPFLI, LLP CPA's and Consultants.
This information is not meant to be used for tax advice.
Consult your tax advisor for specific questions.



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Existing Home Owners (move-up / repeat buyers)



Up to \$6,500 for qualified move-up/repeat home buyers purchasing a principal residence after November 6, 2009 and on or before April 30, 2010. (Or purchased by June 30, 2010 with a binding sales contract signed by April 30, 2010.)



Who is eligible to claim the tax credit?

Qualified move-up or repeat home buyers purchasing any kind of home are eligible to claim this credit.

What is the definition of a move-up or repeat home buyer?

The law defines a tax credit qualified move-up home buyer ("long-time resident") as a person who has owned and resided in the same home for at least five consecutive years of the eight years prior to the purchase date. For married taxpayers, the law tests the homeownership history of both the home buyer and his/her spouse. That is, both spouses must qualify as long-time residents, with at least five years of principal residency for each. Repeat home buyers do not have to purchase a home that is more expensive than their previous home to qualify for the tax credit.

How is the amount of the tax credit determined?

The tax credit is equal to 10 percent of the home's purchase price up to a maximum of \$6,500. Purchases of homes priced above \$800,000 are not eligible for the tax credit.

What types of homes qualify for the tax credit?

Any home that will be used as a principal residence will qualify for the credit, provided the home is purchased for a price less than or equal to \$800,000. This includes single-family detached homes, attached homes like townhouses and condominiums, manufactured homes (also known as mobile homes) and houseboats. 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.

It is important to note that you cannot purchase a home from, among other family members, your ancestors (parents, grandparents, etc.), your lineal descendants (children, grandchildren, etc.) or your spouse or your spouse's family members. Please consult with your tax advisor for more information. Also see IRS Form 5405.

Are there any income limits for claiming the tax credit?

Yes. The income limit for single taxpayers is \$125,000; the limit is \$225,000 for married taxpayers filing a joint return. The tax credit amount is reduced for buyers with a modified adjusted gross income (MAGI) above those limits. The phaseout range for the tax credit program is equal to \$20,000. That is, the tax credit amount is reduced to zero for taxpayers with MAGI of more than \$145,000 (single) or \$245,000 (married) and is reduced proportionally for taxpayers with MAGIs between these amounts.

Instead of buying a new home from a home builder, I hired a contractor to construct a home on a lot that I already own. Do I still qualify for the tax credit?

Yes. For the purposes of the home buyer tax credit, a principal residence that is constructed by the home owner is treated by the tax code as having been "purchased" on the date the owner first occupies the house. In this situation, the date of first occupancy must be after November 6, 2009 and on or before April 30, 2010 (or by June 30, 2010, provided a binding sales contract was in force by April 30, 2010).

In contrast, for newly-constructed homes bought from a home builder, eligibility for the tax credit is determined by the settlement date. Be sure to check with a tax advisor in cases where a HUD-1 form is not used at settlement to be sure you have sufficient documentation to attach to IRS Form 5405.

I am not a U.S. citizen. Can I claim the tax credit?

Perhaps. Anyone who is not a nonresident alien (as defined by the IRS) and who has owned and resided in a principal residence in the United States for at least five consecutive years of the eight years prior to the purchase date can claim the tax credit if they meet the income limits. For married taxpayers, the law tests the homeownership history of both the home buyer and his/her spouse. The IRS provides a definition of "nonresident alien" in IRS Publication 519.

Is a tax credit the same as a tax deduction?

No. A tax credit is a dollar-for-dollar reduction in what the taxpayer owes. That means that a taxpayer who owes \$6,500 in income taxes and who receives an \$6,500 tax credit would owe nothing to the IRS.

A tax deduction is subtracted from the amount of income that is taxed. Using the same example, assume the taxpayer is in the 15 percent tax bracket and owes \$6,500 in income taxes. If the taxpayer receives a \$6,500 deduction, the taxpayer's tax liability would be reduced by \$975 (15 percent of \$6,500), or lowered from \$6,500 to \$5,525.

How do I claim my tax credit? Do I need to complete a form or application?

For answers to these questions and more please visit www.federalhousingtaxcredit.com or www.foxcu.org.



Information source: www.federalhousingtaxcredit.com.
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