



## **Released: December 23, 2008**

Congress recently approved a tax credit for first-time homebuyers that can be worth up to \$7,500. The credit, however, acts more like a no-interest loan because it must be repaid to the government over 15 years.

The First-Time Homebuyer Credit can be claimed on Form 5405, which is filed with your 2008 or 2009 federal tax return.

**For the who, what and how, see the following questions and answers:**

**Q: What is the credit?**

A: The First Time Homebuyer Credit is a new tax credit included in the recently enacted Housing and Economic Recovery Act of 2008. The credit operates like an interest free loan because it must be repaid over a 15-year period.

**Q: How much is the credit?**

A: The credit is 10 percent of the purchase of the home, with a maximum available credit of \$7,500 for either a single taxpayer or a married couple filing a joint return; \$3,750 for married persons filing separate returns. The full credit is available for homes costing \$75,000 or more.

**Q. Which home purchases qualify for the first-time homebuyer credit?**

A: Only the purchase of a main home located in the United States qualifies. You must buy the home after April 8, 2008, and before July 1, 2009. For a home that you construct, the purchase date is the first date you occupy the home.

Taxpayers who owned a main home at any time during the three years prior to the date of purchase are not eligible for the credit. This means that first-time homebuyers and those who have not owned a home in the three years prior to a purchase can qualify for the credit. If you make an eligible purchase in 2008, you claim the first-time homebuyer credit on your 2008 tax return. For an eligible purchase in 2009, you can choose to claim the credit on either your 2008 (or amended 2008 return) or 2009 return.

**Q: When must I pay back the credit?**

A: You must begin repaying the loan the second year after claiming the credit. For example, if you properly claim the maximum available credit of \$7,500 on your 2008 federal tax return, you must begin repaying the credit by including one-fifteenth of this amount, or \$500, as an additional tax on your 2010 federal tax return. Normally, \$500 will be due each year from 2010 to 2024.

**Q. How is the credit repaid?**

A: The first-time homebuyer credit is similar to a 15-year interest-free loan. It is repaid in 15 equal annual installments beginning with the second tax year after the year the credit is claimed. You may need to adjust your withholding or make quarterly estimated tax payments to ensure you are not under-withheld.

Some exceptions apply to the repayment rule:

- If you die, any remaining annual installments are not due. If you filed a joint return and then you die, your surviving spouse would be required to repay his or her half of the remaining repayment amount.
- If you stop using the home as your main home, all remaining annual installments become due on the return for the year that happens. This includes situations where the main home becomes a vacation home or is converted to business or rental property. There are special rules for involuntary conversions. Taxpayers are urged to consult a professional to determine the tax consequences of an involuntary conversion.
- If you sell your home, all remaining annual installments become due on the return for the year of sale. The repayment is limited to the amount of gain on the sale, if the home is sold to an unrelated taxpayer. If there is no gain or if there is a loss on the sale, the remaining annual installments may be reduced or even eliminated. Taxpayers are urged to consult a professional to determine the tax consequences of a sale.
- If you transfer your home to your spouse, or, as part of a divorce settlement, to your former spouse, that person is responsible for making all subsequent installment payments.

**Q: Can I apply for the credit if I bought a vacation home or rental property?**

A: No. Vacation homes and rental property do not qualify for this credit.

**Q: Who is considered to be a first-time homebuyer?**

A: Taxpayers who have not owned another home at any time during the three years prior to the date of purchase.

**Q: When would I have had to buy a new home?**

A: Only purchases of a main home located in the United States qualify, and the home must have been purchased after April 8, 2008, and before July 1, 2008. For home you construct, the purchase date is the date you first occupy the home.

**Q: How do I apply for the credit?**

A: The credit is claimed on new IRS Form 5405 and filed with your 2008 federal tax return.

**Q: How are repayments of the homebuyer credit tracked?**

A: A memo field will be present on taxpayer record and repayment will be tracked over the 15 year repayment period.

**Q: How will the IRS know if someone sells their residence before the 15 years are up?**

A: Through both self reporting and third-party information.

**Q. Are there income limits?**

A: Yes. The credit is reduced or eliminated for higher-income taxpayers. The credit is phased out based on your modified adjusted gross income (MAGI). For a married couple filing a joint return, the phase-out range is \$150,000 to \$170,000. For other taxpayers, the phase-out range is \$75,000 to \$95,000.

This means the full credit is available for married couples filing a joint return whose MAGI is \$150,000 or less and for other taxpayers whose MAGI is \$75,000 or less.

**Q: I purchased a home that qualifies for the First Time Homebuyer Credit. I will be renting two of the bedrooms and reporting the rental income on Schedule E. Will I still qualify for the credit if I use the home as my principal residence?**

A: Yes, if you are a first-time homebuyer of a principal residence in the United States, you generally may claim the first-time homebuyer credit, but certain limitations, including a limitation based on modified adjusted gross income, apply. See Form 5405, First-Time Homebuyer Credit, for more details.

**Q: If two unmarried people buy a house together, how do they determine how much each may take of the credit?**

A: Two unmarried individuals buying a principal residence may allocate the credit among the individual owners in any reasonable manner. The total amount allocated between the owners may not exceed the smaller of \$7500 or 10% of the purchase price of the house.

**Q: Can a person with an ITIN, who qualifies as a resident, take this credit?**

A: Resident aliens with an ITIN are eligible to take the credit.

**Q: I don't owe taxes and did not have taxes taken from my paycheck, do I qualify for the credit?**

A: Yes, the credit is fully refundable, and you can claim the credit even if no taxes were withheld from your paycheck.

**Q. Who cannot take the credit?**

A: If any of the following describe you, you cannot take the credit, even if you buy a main home:

- Your income exceeds the phase-out range. This means joint filers with MAGI of \$170,000 and above and other taxpayers with MAGI of \$95,000 and above.
- You buy your home from a close relative. This includes your spouse, parent, grandparent, child or grandchild.
- You stop using your home as your main home.
- You sell your home before the end of the year.
- You are a nonresident alien.

- You are, or were, eligible to claim the District of Columbia first-time homebuyer credit for any taxable year.
- Your home financing comes from tax-exempt mortgage revenue bonds.
- You owned another main home at any time during the three years prior to the date of purchase. For example, if you bought a home on July 1, 2008, you cannot take the credit for that home if you owned, or had an ownership interest in, another main home at any time from July 2, 2005, through July 1, 2008.