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First-Time Homebuyer Tax Credit





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Introduction

The first-time homebuyer tax credit was originally established by the Housing and Economic Recovery Act of 2008. The credit was subsequently extended and modified by the American Recovery and Reinvestment Act of 2009 and the Worker, Homeownership, and Business Assistance Act of 2009.

Home purchases made April 9, 2008 through December 31, 2008

A temporary refundable credit equal to 10-percent of the purchase price of a principal residence, up to \$7,500 (\$3,750 if married filing separately) was available to first-time homebuyers who purchased a home on or after April 9, 2008, and before January 1, 2009. Generally, to qualify as a first-time homebuyer, you (and your spouse if you were married), could not have owned any other principal residence during the three-year period ending on the date of purchase.

The credit was phased out for individuals with higher incomes. Specifically, the credit was reduced for individuals with modified adjusted gross income (MAGI) exceeding \$75,000, and was eliminated for individuals with MAGI equal to or exceeding \$95,000. For married individuals filing a joint federal income tax return, the credit was reduced if MAGI exceeded \$150,000, and was eliminated for those with a MAGI of \$170,000 or more.

The credit at this time was effectively an interest-free loan. Individuals who claimed the credit for purchases made during this period of time are required to pay back the credit over fifteen years in equal installments. The fifteen year repayment period begins two years after the credit was claimed. So, if an individual claimed a \$7,500 credit on his or her 2008 federal income tax return, he or she would start paying \$500 a year back, beginning with his or her 2010 return.

Caution: If an individual claimed the credit for a home purchase made during this period of time, and sells the home during the fifteen year repayment period, or the home ceases to be the principal residence of the individual during the fifteen-year repayment period, repayment of the credit is accelerated. Repayment is generally not accelerated if the home remains the principal residence of the individual's spouse.

Tip: If the principal residence is sold during the fifteen-year repayment period, then the remaining credit amount would be due from the gain on the home sale. If there is insufficient gain, then the remaining credit payback is forgiven. Also, if an individual dies during the repayment period, the balance is forgiven.

Caution: Although the repayment amount is limited to the gain realized upon the sale of the home, if the home is sold during the payback period, that gain is determined by reducing the basis in the home by the amount of the remaining unpaid credit.

Caution: The tax credit could not be combined with the mortgage revenue bond (MRB) homebuyer program or the DC first-time homebuyer credit.

Tip: The credit could also be applied against the alternative minimum tax (AMT).

Home purchases made on or after January 1, 2009 and before November 7, 2009

A temporary refundable credit equal to 10-percent of the purchase price of a principal residence, up to \$8,000 (\$4,000 if married filing separately) was available to first-time homebuyers who purchased a home on or after January 1, 2009, and before November 7, 2009. Generally, to qualify you (and your spouse if you were married), could not have owned any other principal residence during the three-year period ending on the date of purchase.



The income phaseout ranges for the credit remain the same as the amounts that applied to qualifying 2008 purchases: Specifically, the credit is reduced for individuals with modified adjusted gross income (MAGI) exceeding \$75,000, and is eliminated for individuals with MAGI equal to or exceeding \$95,000. For married individuals filing a joint federal income tax return, the credit is reduced if MAGI exceeds \$150,000, and is eliminated for those with a MAGI of \$170,000 or more.

While any credit claimed as a result of a qualifying purchase in 2008 had to be paid back over a fifteen year period, there is no such requirement for qualifying purchases made on or after January 1, 2009. However, if the home ceases to be an individual's principal residence within thirty-six months of the purchase, the individual must pay the credit back. If married at the time of purchase, the home must remain the principal residence of either spouse for the thirty-six month period to avoid repayment. If repayment is required, it is reported and paid on the federal income tax return for the year in which the home ceased being a principal residence.

Tip: The credit can be applied against the alternative minimum tax (AMT).

Caution: No District of Columbia first-time homebuyer credit is allowed with respect to the purchase of a residence after December 31, 2008, if the first-time homebuyer tax credit described here is allowable to such individual (or the individual's spouse) with respect to such purchase.

Home purchases on or after November 7, 2009 and before October 1, 2010

A refundable credit equal to 10-percent of the purchase price of a principal residence, up to \$8,000 (\$4,000 if married filing separately) is available to first-time homebuyers who purchased a home on or after November 7, 2009 and before May 1, 2010. Homes purchased on or after May 1, 2010 and before October 1, 2010 can qualify for the credit if a binding written contract to complete the purchase was entered into prior to May 1, 2010. Generally, to qualify you (and your spouse if you were married), could not have owned any other principal residence during the three-year period ending on the date of purchase.

A refundable credit equal to 10-percent of the purchase price of a principal residence, up to \$6,500 (\$3,250 if married filing separately) is available to individuals who have maintained the same principal residence for at least five consecutive years in the eight year period ending at the time the new home is purchased during the time period described above.

For purchases during this time period, the credit is phased out for individuals with modified adjusted gross income (MAGI) exceeding \$125,000, and is eliminated for individuals with MAGI equal to or exceeding \$145,000. For married individuals filing a joint federal income tax return, the credit is reduced if MAGI exceeds \$225,000, and is eliminated for those with a MAGI of \$245,000 or more. The credit is not available for any home with a purchase price exceeding \$800,000.

Additionally:

- The credit is not allowed unless the individual claiming the credit is eighteen years of age as of the date of purchase. An individual who is married is treated as meeting the age requirement if the individual or the individual's spouse meets the age requirement.
- The credit is not allowed if the principal residence is acquired from a person who is closely related to the individual or the spouse of the individual.
- No credit is allowed if the individual is a dependent of another taxpayer.
- No credit is allowed unless the individual attaches to the relevant tax return a properly executed copy of the settlement statement used to complete the purchase.
- The credit is not available to nonresident aliens

Caution: If the home ceases to be an individual's principal residence within thirty-six months of the purchase, the individual must pay the credit back. If married at the time of purchase, the home must remain the principal residence of either spouse for the thirty-six month period to avoid repayment. If repayment is required, it is reported and paid on the federal income tax return for the year in which the home ceased being a principal residence.



Caution: No District of Columbia first-time homebuyer credit is allowed to any taxpayer with respect to the purchase of a residence after December 31, 2008, if the first-time homebuyer tax credit described here is allowable to such taxpayer (or the taxpayer's spouse) with respect to such purchase.

Tip: The credit can be applied against the alternative minimum tax (AMT).

Special rules apply to members of the uniformed services

Special rules apply to an individual who receives government orders (or whose spouse receives such orders) for qualified official extended duty service. If such an individual disposes of a principal residence after December 31, 2008 (or no longer uses the home as a principal residence) in connection with the government orders, no recapture of the first-time homebuyer credit applies by reason of the disposition of the residence. Any 15-year recapture with respect to a home acquired before January 1, 2009, ceases to apply in the taxable year the disposition occurs.

In addition, the qualifying time period for the first-time homebuyer credit is extended for one year. Specifically, in the case of any individual (and, if married, the individual's spouse) who serves on qualified official extended duty service outside of the United States for at least 90 days during the period January 1, 2009 through April 30, 2010, the qualifying time period for the first-time homebuyer credit is extended for one year, through April 30, 2011 (through June 30, 2011, in the case of an individual who enters into a written binding contract before May 1, 2011, to close on the purchase of a principal residence before July 1, 2011).

Tip: Qualified official extended duty service means service on official extended duty as a member of the uniformed services, a member of the Foreign Service of the United States, or an employee of the intelligence community.

Tip: Qualified official extended duty is any period of extended duty while serving at a place of duty at least 50 miles away from the taxpayer's principal residence or under orders compelling residence in government furnished quarters. Extended duty is defined as any period of duty pursuant to a call or order to such duty for a period in excess of 90 days or for an indefinite period.

Tip: The uniformed services include: (1) the Armed Forces (the Army, Navy, Air Force, Marine Corps, and Coast Guard); (2) the commissioned corps of the National Oceanic and Atmospheric Administration; and (3) the commissioned corps of the Public Health Service. The term "member of the Foreign Service of the United States" includes: (1) chiefs of mission; (2) ambassadors at large; (3) members of the Senior Foreign Service; (4) Foreign Service officers; and (5) Foreign Service personnel.

Tip: The term "employee of the intelligence community" means an employee of the Office of the Director of National Intelligence, the Central Intelligence Agency, the National Security Agency, the Defense Intelligence Agency, the National Geospatial-Intelligence Agency, or the National Reconnaissance Office. The term also includes employment with: (1) any other office within the Department of Defense for the collection of specialized national intelligence through reconnaissance programs; (2) any of the intelligence elements of the Army, the Navy, the Air Force, the Marine Corps, the Federal Bureau of Investigation, the Department of the Treasury, the Department of Energy, and the Coast Guard; (3) the Bureau of Intelligence and Research of the Department of State; and (4) the elements of the Department of Homeland Security concerned with the analyses of foreign intelligence information.

Electing to treat purchase as if made in prior year

If an individual purchases a principal residence in 2009 and qualifies for the first-time homebuyer credit, he or she can elect to treat the purchase as if it occurred on December 31, 2008, claiming the credit on his or her 2008 federal income tax return (amending the return to claim the credit if necessary). Similarly, individuals who purchase a principal residence in 2010 can elect to treat the purchase as occurring on December 31, 2009 for purposes of the first-time homebuyer credit.

Tip: For individuals who purchase a principal residence in 2010 but elect to treat the purchase as if it occurred on December 31, 2009, 2009 modified adjusted gross income (MAGI) is used to determine whether the credit is reduced or eliminated.



Allocating the credit between individuals who aren't married

The first-time homebuyer credit can be allocated when two or more unmarried individuals purchase a principal residence. IRS Notice 2009-12 explains that when two or more individuals purchase a qualifying principal residence and otherwise satisfy all requirements, the first-time homebuyer tax credit can be allocated among the individuals using any reasonable method, provided the method does not allocate any portion of the credit to an individual who is not eligible to claim that portion. Reasonable methods include allocating the credit based on individuals' contributions toward the purchase price, and allocating the credit based on individuals' ownership interests.

Caution: The total first-time homebuyer tax credit allowed for all individuals cannot exceed \$8,000 (\$6,500 if qualification for the credit is based on prior ownership of a principal residence for a period of at least five years).

Summary of general rules (table)

Summary of general rules for first-time homebuyer tax credit			
When was the home purchased?	4/9/08 through 12/31/08	1/1/09 through 11/6/09	11/7/09 through 4/30/10 (through 9/30/10 if binding written contract before 5/1/10)
Maximum credit	\$7,500 (\$3,750 if married filing separately)	\$8,000 (\$4,000 if married filing separately)	\$8,000 (\$4,000 if married filing separately)
Reduced credit available to existing homeowners?	No	No	Yes-- homeowners who have maintained the same principal residence for 5 of 8 years ending on the purchase date eligible for maximum \$6,500 credit (\$3,250 if married filing separately)
Does credit have to be paid back?	Yes--generally over 15 years in equal installments	No, provided the home remains your principal residence for 36 months	No, provided the home remains your principal residence for 36 months
Credit claimed on tax return for what year?	2008	Can elect to treat purchase as if it occurred on 12/31/08, claiming credit on 2008 return; otherwise claimed on 2009 return.	Purchase in 2009 can be treated as if it occurred on 12/31/08; otherwise claimed on 2009 return. Purchase in 2010 can be treated as if it occurred on 12/31/09; otherwise claimed on 2010 return.
Income phase out	\$75,000 to \$95,000 (\$150,000 to \$170,000 if married filing jointly)	\$75,000 to \$95,000 (\$150,000 to \$170,000 if married filing jointly)	\$125,000 to \$145,000 (\$225,000 to \$245,000 if married filing jointly)
Maximum purchase price	No maximum	No maximum	\$800,000

IMPORTANT DISCLOSURES

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