

Understanding the First-Time Homebuyer Tax Credit

If you recently purchased a first home, or intend to purchase a first home in the next few months, you may stand to benefit from the first-time homebuyer tax credit provisions included in the recently signed American Recovery and Reinvestment Act. When it comes to the first-time homebuyer tax credit, though, there's quite a bit of confusion. So it's worth taking a few minutes to make sure you understand how the credit works, and the time period to which it applies.

First, the credit isn't new: Back in July of 2008, the Housing and Economic Recovery Act established a temporary refundable first-time homebuyer credit equal to 10% of the purchase price of a principal residence, up to \$7,500 (\$3,750 if married filing separately). The credit applied to first-time homebuyers who purchased a home on or after April 9, 2008, and before July 1, 2009. Generally, you qualified as a first-time homebuyer if you, and your spouse if you were married, did not own any other principal residence during the 3-year period ending on the date of purchase. The credit was phased out for individuals with higher incomes, and had to be paid back over 15 years in equal installments (repayment would be accelerated if the home were to be sold during the 15-year period or if the home ceased to be the principal residence of you or your spouse during that time).

The new legislation extends the credit to homes purchased by qualified first-time homebuyers through November 30, 2009. The new legislation also expands the credit. The credit remains 10% of the purchase price of the home, but the dollar limit has increased to \$8,000 (the cap for married individuals filing separate returns is half that amount) for home purchases made after December 31, 2008, and before December 1, 2009. In addition, if you qualify for the credit as the result of a home purchase in 2009, you don't have to pay it back over time, provided the home remains your principal residence for 36 months.

The American Recovery and Reinvestment Act continues to allow you to elect to report a qualifying home purchase made in 2009 as if it occurred on December 31, 2008 (allowing you to claim the credit on your 2008 federal income tax return). Unfortunately for many, the new legislation also continues to eliminate the credit for those with higher incomes. The credit is reduced if your modified adjusted gross income (MAGI) exceeds \$75,000 (\$150,000 if you're married and file a joint return) and is completely eliminated if your MAGI reaches \$95,000 (\$170,000 if you're married and file a joint return).

Summary of rules for qualifying first-time homebuyers, by purchase date		
<i>When was home purchased?</i>	April 9, 2008 through December 31, 2008	January 1, 2009 through November 30, 2009
<i>Maximum credit</i>	\$7,500 (\$3,750 if married filing separately)	\$8,000 (\$4,000 if married filing separately)
<i>Does credit have to be paid back?</i>	Yes--generally, over 15 years in equal installments	No, provided the home remains your principal residence for 36 months
<i>Credit is claimed on tax return for what year?</i>	2008 federal income tax return	You can elect to treat the purchase of the home as if it occurred on December 31, 2008, claiming credit on 2008 tax return (\$8,000 maximum credit limit still applies even if reported on 2008 return); otherwise, credit is claimed on 2009 tax return.
<i>Credit phased out for higher</i>	Yes	Yes

<i>incomes?</i>		
-----------------	--	--