

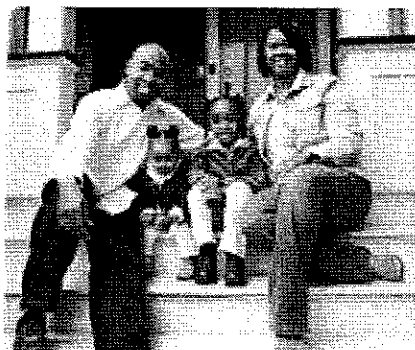
Home Buyer Tax Credits

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Tax Credits at a Glance

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Frequently Asked Questions About the First-Time Home Buyer Tax Credit

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

For sales occurring after November 6, 2009, the Act establishes income limits of \$125,000 for single taxpayers and \$225,000 for married couples filing joint returns.

The income limits for sales occurring on or after January 1, 2009 and before November 6, 2009, are \$75,000 for single taxpayers and \$150,000 for married couples filing joint returns.

The following questions and answers provide basic information about the tax credit. If you have more specific questions, we strongly encourage you to consult a tax professional or legal professional about your unique situation.

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1 Who is eligible to claim the \$8,000 tax credit?

First-time home buyers purchasing any kind of home—new or resale—are e qualify for the tax credit, a home purchase must occur on or after January 1 April 30, 2010. For the purposes of the tax credit, the purchase date is the c and the title to the property transfers to the home owner. A limited exception for deed purchases and installment sale purchases. See the IRS website fo

However, the law also allows home sales occurring by June 30, 2010 to que to a binding sales contract in force on or before April 30, 2010.

Persons who are claimed as dependents by other taxpayers or who are unc for the tax credit program.

2. 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 pri the three-year period prior to the purchase. For married taxpayers, the law t 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 principal residence, neither you nor your spouse qualifies for the first-time h. However, IRS Notice 2009-12 allows unmarried joint purchasers to allocate buyer who qualifies as a first-time buyer, such as may occur if a parent joint a son or daughter. Ownership of a vacation home or rental property not use does not disqualify a buyer as a first-time home buyer.

3 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 rr

4. Are there any income limits for claiming the tax credit?

Yes. For sales occurring after November 6, 2009, the income limit for single limit is \$225,000 for married taxpayers filing a joint return. The tax credit am with a modified adjusted gross income (MAGI) of more than \$125,000 for si \$225,000 for married taxpayers filing a joint return. The phaseout range for equal to \$20,000. That is, the tax credit amount is reduced to zero for taxpa than \$145,000 (single) or \$245,000 (married) and is reduced proportionally.

between these amounts

5. The income limits for claiming the tax credit were raised when the tax the higher limits retroactive?

No. The new income limits are only applicable to purchases occurring after

The income limits for sales occurring on or after January 1, 2009 and on or before January 1, 2010 are \$75,000 for single taxpayers and \$150,000 for married couples filing jointly.

6. What is "modified adjusted gross income"?

Modified adjusted gross income or MAGI is defined by the IRS. To find it, a taxpayer determines "adjusted gross income" or AGI. AGI is total income for a year minus (known as "adjustments" or "above-the-line deductions"), but before itemized deductions on Schedule A or personal exemptions are subtracted. On Forms 1040 and 1040-E, AGI is the number on page 1 and first number on page 2 of the form. For Form 1040-E (as of 2007). Note that AGI includes all forms of income including wages, salaries, dividends and capital gains.

To determine modified adjusted gross income (MAGI), add to AGI certain additional income. See IRS Form 5405 for more details.

7. If my modified adjusted gross income (MAGI) is above the limit, do I qualify for a partial credit?
Possibly. It depends on your income. Partial credits of less than \$8,000 are available to taxpayers whose MAGI exceeds the phaseout limits.

8. Can you give me an example of how the partial tax credit is determined?
Just as an example, assume that a married couple has a modified adjusted gross income of \$225,000. The applicable phaseout to qualify for the tax credit is \$225,000, and the credit amount is \$8,000. Dividing \$8,000 by the phaseout range of \$20,000 yields 0.4. When the result is 0.4, the result is 0.4. To determine the amount of the partial first-time home buyer credit available to this couple, multiply \$8,000 by 0.4. The result is \$3,200.

Here's another example: assume that an individual home buyer has a modified adjusted gross income of \$138,000. The buyer's income exceeds \$125,000 by \$13,000. Dividing \$13,000 by the phaseout range of \$20,000 yields 0.65. When you subtract 0.65 from 1.0, the result is 0.35. This shows that the buyer is eligible for a partial tax credit of \$2,800.

Please remember that these examples are intended to provide a general idea of how the credit might be applied in different circumstances. You should always consult your tax advisor relating to your specific circumstances.

9. How is this home buyer tax credit different from the tax credit that was available in 2009?

The tax credit's income limits were increased, the documentation requirements were relaxed, and the program's deadlines were extended.

10. How do I claim the tax credit? Do I need to complete a form or apply for the credit?

You claim the tax credit on your federal income tax return. Specifically, you use IRS Form 5405 to determine their tax credit amount, and then claim this amount on your income tax form for 2009 returns (line 69 of the 1040 income tax form for 2009). No applications are required, and no pre-approval is necessary. However, you must qualify for the credit under the income limits and first-time home buyer requirements. You claim the credit on Form 5405 for an intended purchase for some future date. Home buyers must attach a copy of their HUD-1 settlement form.

Form 5405 as proof of the completed home purchase.

11 What types of homes will qualify for the tax credit?

Any home that will be used as a principal residence will qualify for the credit purchased for a price less than or equal to \$800,000. This includes single-family attached homes like townhouses and condominiums, manufactured homes (mobile homes) and houseboats. The definition of principal residence is identical to whether you may qualify for the \$250,000 / \$500,000 capital gain tax exclusion on principal residences.

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

12 I read that the tax credit is "refundable." What does that mean?

The fact that the credit is refundable means that the home buyer credit can be used if the taxpayer has little or no federal income tax liability to offset. Typically this is done by sending the taxpayer a check for a portion or even all of the amount of the credit.

For example, if a qualified home buyer expected, notwithstanding the tax credit, a tax liability of \$5,000 and had tax withholding of \$4,000 for the year, then without the credit the taxpayer would owe the IRS \$1,000 on April 15th. Suppose now that the taxpayer also receives an \$8,000 home buyer tax credit. As a result, the taxpayer would receive a check for \$7,000 (minus the \$1,000 owed).

13 Instead of buying a new home from a home builder, I hired a contractor to build 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 newly-constructed for a home owner is treated by the tax code as having been "purchased" on the date the home owner occupies the house. In this situation, the date of first occupancy must be on or before April 30, 2010 (or by June 30, 2010, provided a binding sales contract was in place by April 30, 2010).

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

14 Can I claim the tax credit if I finance the purchase of my home under a Mortgage Revenue Bond (MRB) program?

Yes. The tax credit can be combined with an MRB home buyer program. Note that first-time home buyers who purchased a home in 2008 may not claim the tax credit if they are participating in an MRB program.

15 I live in the District of Columbia. Can I claim both the Washington, D.C. credit and this new credit?

No. You can claim only one.

16 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 had a principal residence in the previous three years and who meets the income limits test can claim the credit on a qualified home purchase. The IRS provides a definition of "nonresident alien" in its regulations.

17 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. If a taxpayer who owes \$8,000 in income taxes and who receives an \$8,000 tax credit will owe nothing to the IRS.

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

18. I bought a home in 2008. Do I qualify for this credit?

No, but if you purchased your first home between April 9, 2008 and January 1, 2009, you may qualify for a different tax credit. Please consult with your tax advisor for more information.

19. Is there a way for a home buyer to access the money allocable to the credit before they file their 2009 or 2010 tax return?

Yes. Prospective home buyers who believe they qualify for the tax credit are allowed to request their employer to reduce income tax withholding. Reducing tax withholding (up to the amount of the credit) allows the buyer to accumulate cash by raising his/her take home pay. This money can then be used for the downpayment.

Buyers should adjust their withholding amount on their W-4 via their employer or make quarterly estimated tax payments. IRS Publication 919 contains rules and guidance regarding tax withholding. Prospective home buyers should note that if income tax withholding is not sufficient to cover the tax credit qualified purchase does not occur, then the individual would be liable for income tax and possible interest charges and penalties.

In addition, rule changes made as part of the economic stimulus legislation allow home buyers to claim the tax credit and participate in a program financed by tax-exempt bonds. Many state housing finance agencies have introduced programs that provide short-term loans that may be used to fund a downpayment. Prospective home buyers should contact their state housing finance agency to see if such a program is available in their state. Many state housing finance agencies have announced tax credit assistance programs, and more information is available at The National Council of State Housing Agencies (NCSHA) has compiled a list of these programs which can be found here.

20. HUD is now allowing "monetization" of the tax credit. What does that mean?

It means that HUD allows buyers using FHA-insured mortgages to apply the tax credit toward their home purchase immediately rather than waiting until they file their tax return to receive a refund. These funds may be used for certain downpayment expenses.

Under HUD's guidelines, non-profits and FHA-approved lenders are allowed to provide short-term loans of up to \$8,000. The guidelines also allow government approved state housing finance agencies, to facilitate home sales by providing longer term mortgages.

Housing finance agencies and other government entities may also issue tax credit loans that buyers may use to satisfy the FHA 3.5 percent downpayment requirement. Lenders can purchase a home buyer's anticipated tax credit to pay closing costs above the 3.5 percent downpayment that is required for FHA-insured mortgages.

More information about the guidelines is available on the NAHB web site. Request for Comment letter (pdf) and an explanation of the FHA Mortgagee Letter on Tax Credit Monetization (pdf) is available at the NAHB web site.

21. If I'm qualified for the tax credit and buy a home in 2009 (or 2010), can I claim the credit against my 2008 (or 2009) tax return?

Yes. The law allows taxpayers to choose ("elect") to treat qualified home purchases as if the purchase occurred on December 31, 2008 (or if in 2010, December 31, 2009) so that the previous year's income limit (MAGI) applies and the election accelerates the credit.

be claimed. A benefit of this election is that a home buyer in 2009 or 2010 will know their MAGI with certainty, thereby helping the buyer know whether the income limit applies for that amount.

Taxpayers buying a home who wish to claim it on their prior year tax return, but have not yet submitted their tax return to the IRS, may file an amended return claiming the credit for 2009 or 2010. You should consult with a tax professional to determine how to arrange this.

- 22 For a home purchase in 2009 or 2010, can I choose whether to treat the credit as if it were claimed in the prior or present year, depending on in which year my credit amount is the largest?**
Yes. If the applicable income phaseout would reduce your home buyer tax credit in the present year and a larger credit would be available using the prior year MAGI, you may choose the year that yields the largest credit amount.

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