

First Time Homebuyer Tax Credit

OVERVIEW

The recent housing bill, H.R. 3221, the Housing and Economic Recovery Act of 2008 passed by Congress is intended to spur home ownership while giving first time homebuyers a tax credit for purchasing a home. The stipulation to the bill is that the tax credit is to be paid back interest free over fifteen years or upon the sale of a buyer's home. If a buyer sells their home and does not have enough equity to repay the loan, it is forgiven.

PROGRAM DETAILS

What is the amount of the credit?

H.R. 3221, the Housing and Economic Recovery Act of 2008 allows first time home buyers to take a \$7,500 tax credit from the purchase of a single-family home, town-home, or condominium apartment.

Who may claim the credit?

Any homebuyer who has not owned a home during the past three years and is a U.S. citizen who files taxes is eligible to participate in this program. (Some homebuyers who are not citizens may also qualify; ask your mortgage advisor for more information.)

To qualify, buyers must actually close on the sale of the home on or after April 9, 2008 and before July 1, 2009. The original eligibility period expired in April 2009, but following a major grassroots campaign from NAHB members, the period was extended to enable home builders to include the credit in their sales and marketing next spring and into the early summer; the peak homebuying season.



Are there any income restrictions?

Yes. Single or head-of-household filers can claim the full \$7,500 credit if their adjusted gross income (AGI) is less than \$75,000. For married couples filing a joint return, the income limit doubles to \$150,000.

Single or head-of-household taxpayers who earn between \$75,000 and \$95,000 are eligible to receive a partial first time homebuyer tax credit. The same applies to married couples who earn between \$150,000 and \$170,000.

The credit is not available for single taxpayers whose AGI is greater than \$95,000 and married couples with an AGI exceeding \$170,000.

What is the difference between a tax credit and a tax deduction?

A tax credit is a dollar-for-dollar reduction in what the taxpayer owes. That means that a taxpayer who owes \$7,500 in income taxes and who receives a \$7,500 tax credit would owe nothing to the IRS.

A refundable credit means that if a taxpayer pays less than \$7,500 in federal income taxes, the government will write them a check for the difference. For example, if \$5,000 in federal taxes is owed, the taxpayer would pay nothing and a \$2,500 payment would be received from the IRS. If a qualifying homebuyer were owed a \$1,000 tax refund, they would receive \$8,500.

A tax deduction is subtracted from the amount of income that is taxed. Using the same example, assume the taxpayer is in the 15% tax bracket and owes \$7,500 in income taxes. If the taxpayer receives a \$7,500 deduction, the taxpayer's tax liability would be reduced by \$1,125 (15% of \$7,500), or lowered from \$7,500 to \$6,375.



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When can a buyer claim the credit?

Buyers can take the tax credit on their 2008 or 2009 tax return. Those who close in 2008 take the credit on their 2008 return. Buyers in 2009 have the option of taking the credit on their 2008 or 2009 returns.

Does the credit amount differ based on tax filing status?

No. The credit is in general equal to \$7,500 for a qualified home purchase, whether the home buyer files taxes as a single or married taxpayer. However, if a household files its taxes as "married filing separately" (in effect, filing two returns), then the credit of \$7,500 is claimed as a \$3,750 credit on each of the two returns.

Are there any circumstances under which buyers whose incomes are at or below the \$75,000 limit for singles or the \$150,000 limit for married taxpayers might not be able to claim the full \$7,500 tax credit?

In general, the tax credit is equal to 10% of the qualified home purchase price, but the credit amount is capped or limited at \$7,500. For most first time homebuyers, this means the credit will equal \$7,500. For homebuyers purchasing a home priced less than \$75,000, the credit will equal 10% of the purchase price.

What is the payback provision?

The credit essentially serves as an interest-free loan to be repaid over fifteen years. For example, a homebuyer claiming a \$7,500 credit would repay the credit at \$500 per year. If the homeowner sold the home, then the remaining credit would be due from the profit of the home sale.

If there is insufficient profit, then the remaining credit payback would be forgiven.

The homeowner does not have to begin making repayments on the credit until two years after the credit is claimed. So if the tax credit is claimed on the 2008 tax return, a \$500 payment is not due until the 2010 tax return is filed.

Why must the money be repaid?

The intent of Congress was to provide as large a financial resource as possible for homebuyers in the year that they purchase a home. In addition to helping first time homebuyers, this will maximize the stimulus for the housing market and the economy, will help stabilize home prices and will increase home sales. The repayment requirement reduces the impact on the U.S. Treasury and assumes that homebuyers will benefit from stabilized and, eventually, rising future housing prices.

Because the money must be repaid, isn't the first time homebuyer program really a zero-interest loan rather than a traditional tax credit?

Yes. Because the tax credit must be repaid, it operates like a zero-interest loan. Assuming an interest rate of 7%, that means the homeowner saves up to \$4,200 in interest payments over the 15-year repayment period. Compared to \$7,500 financed through a 30-year mortgage with a 7% interest rate, the homebuyer tax credit saves homebuyers more than \$8,100 in interest payments. The program is called a tax credit because it operates through the tax code and is administered by the IRS. Also like a tax credit, it provides a reduction in tax liability in the year it is claimed.



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