TAX CREDIT FOR FIRST-TIME HOME BUYERS!

First-time home buyers act soon! The tax credit for your home purchase only lasts until July 1, 2009.

A View of the Tax Credit (in Housing & Economic Recovery Act of 2008) for First-Time Buyers:

On July 30, 2008, President Bush signed a major housing bill (The Housing and Economic Recovery Act of 2008 H.R. 3221) into law. As part of this housing bill, there is a new temporary tax credit to provide an incentive to first-time homebuyers. This $7500 credit is available for purchases (on principal residences) made between April 9, 2008 and July 1, 2009.

This landmark legislation contains several provisions to help home buyers, stop the slide in home prices, and provide a lifeline to borrowers facing foreclosure and bolster market confidence in mortgage giants Fannie Mae and Freddie Mac.

"...the most important piece of housing legislation in a generation." --Senate Banking Committee Chairman Chris Dodd

Quick Question & Answer on Housing Bill

Who is Eligible?

- The $7,500 tax credit is available for first-time homebuyers only.
- A first-time homebuyer is defined as a buyer who has not owned a home during the past 3 years.

Are there Income Limits?

- For single or head of household taxpayers:
  Income less than $75,000 can claim the full $7,500 credit
  Income $75,000 - $95,000 receive partial credit
  Income over $95,000 credit is not available
- For married filing jointly taxpayers:
  Income less than $150,000 can claim the full $7,500 credit
  Income $150,000 - $170,000 receive partial credit
  Income over $170,000 credit is not available

Is there a time period that the credit is available?

First-time homebuyers receive the credit on home purchases made between April 9, 2008 and July 1, 2009.

What if I owe less than $7500 in taxes; will I get money back?

The tax credit is refundable. This means that if you pay less than $7,500 in federal income taxes, then the government will write you a check for the difference.

- For example if you owe $5,000 in taxes you would pay nothing to the IRS and receive a $2,500

payment from the government.
- If you are due to receive a $1,000 refund from the government, your refund would grow to $8,500 ($1,000 refund + $7,500 from tax credit).

What types of homes qualify for the credit?

All homes, whether single-family, townhomes, or condominium apartments will qualify, provided that the home will be used as a principal residence and the buyer has not owned a home in the last 3 years. This also includes new construction homes.

How is the credit paid back?

The tax credit essentially serves as an interest-free loan to be repaid over 15 years.

- For example a $7500 credit would be repaid $500 per year for 15 years.
- If the home owner sold the home, then the remaining credit would be due from the profit of the home sale. If there was insufficient profit, then the remaining credit payback would be forgiven.

Features of the Tax Credit for First-Time Home Buyers

Feature	Housing & Economic Recovery Act of 2008
Amount of Credit	10% of the cost of the home, with a $7,500 maximum
Eligible Property	Any single family residence (including condos, co-ops) that will be used as a principal residence
Refundable	Yes. Reduces income tax liability for the year of purchase.
Income Limit	Yes. Full amount of credit available for individuals with adjusted gross income less than $75,000 (or $150,000 joint return). Phases out above that and caps off at $95,000 (or $170,000 joint return).
Only for First-Time Buyers	Yes. Purchaser (and purchaser's spouse) may not have owned a principal residence in the 3 years prior to purchase.
Repayment	Yes, tax credit to be repaid. A portion of the credit (6.67%) to be repaid each year for 15 years. If home sold before 15 years, then remainder of credit recaptured on sale.
Effective Begin-End Dates	Purchases from April 9, 2008 - July 1, 2009.
Interaction with Alternative Minimum Tax	Can be used against AMT, so credit will not throw individual into AMT.

Frequently Asked Questions

The Basics

1. **How does a tax credit work?**
   Tax credits are special provisions that reduce income tax liability on a dollar for dollar basis. Credits are claimed on an individuals' income tax return. In this case, Congress has created a tax credit for first-time homebuyers. The maximum credit amount is $7500. Thus, if after figuring out all the income tax items, if a person had a tax liability of $8000, a $7500 credit applied to that would mean that only $500 tax would be due. If a person had a tax refund of $500, applying the $7500 credit would mean that the person would receive a refund of $8000.

2. **Who can use the new tax credit?**
   Only first-time homebuyers are eligible to use the credit. A first-time homebuyer is defined as an individual who has not had an ownership interest in a principal residence in the previous 3 years.

3. **Is there an income restriction?**
   Yes. The income restriction is based on the tax filing status the purchaser claims when filing his/her income tax return. For full credit - Single or Head of Household status are eligible if their income is no more than $75,000. Joint return status may have an income no more than $150,000. Partial credits are available for single/head of household between $75,000 - $95,000 or joint between $150,000-$170,000.

4. **Is the amount of the credit tied to the price of the home?**
   Yes. The credit is for 10% the cost of the home, up to a maximum credit of $7500. If a home cost $65,000, the allowable credit would be $6500. If a home cost $120,000, the allowable credit would be $7500. The amount of the credit is the same for all taxpayers, married or single.

5. **What's the definition of a "principal residence"?**
   A principal residence is the home where an individual spends most of his/her time (generally defined as more than 50%). Thee term includes single-family detached housing, condos or co-ops, townhouses or any similar type of new or existing dwelling.

6. **Why do some news reports call the credit an interest-free loan?**
   Unlike most other tax credits, this tax incentive must be paid back. The credit must be repaid over 15 years. The statue specifies that the repayment amount will be 6.67% of the credit amount each year. Thus, a buyer who qualifies for the full $7500 credit will repay $502.50 each year. There will be no interest charge on outstanding balanced.

Some Practical Questions

1. **How do I apply for the credit?**
   Eligible purchasers will simply claim the credit on their IRS tax return form (1040 or other special form the IRS may devise).

2. **So I can't use the credit amount as part of my down payment?**
   Presently, there is no mechanism available for claiming the credit any earlier than the 2008 tax return that will be filed in 2009. Congress tried to devise a mechanism that would allow pre-funding of the credit, but found that pre-funding would require cumbersome processes that would, in effect, bring the IRS into the purchase and settlement phase of the transaction.

3. **So there's no way to get any cash flow benefits before I file my 2008 tax return?**
   Any first-time homebuyers who believe they would be eligible for all or part of the credit may wish to modify their income tax withholding (through their employers) or to adjust their quarterly estimated tax payments.

4. **If I purchase a home in the first half of 2009, do I have to wait until 2010 to receive the credit? Or can I claim it when I file my 2008 return?**
   You'll have a choice. Qualified buyers who make their purchase between Jan 1, 2009 and before July 1, 2009 are permitted to make an election to treat the purchase as if it had occurred in 2008. This election allows them to claim the credit on their 2008 tax return that is due on April 15, 2009. There may be options to get an extension on the 2008 return. Of course there is always the option to claim the credit for the 2009 purchase on the 2009 return filed in 2010.

5. **My sister and I are both single and want to purchase a home together. Will we each receive**

a $7500 credit?
No. The purchase of a residence will generate a tax credit amount that will total up to no more than $7500, no matter how many unmarried purchasers are buying the house.

Repaying the Credit

1. **What is the repayment feature of the credit?**
   The repayment feature of the credit is similar to a recapture provision: in some circumstances the tax system takes back all of part of a tax benefit. In this case, there is no precedent for repayment of a tax credit created for individuals, so not much is known about how the repayment will occur, how it will be reflected at settlement (or on sales forms) or how the IRS will collect and enforce the payments. The repayment is the equivalent of converting the tax credit into an interest-free loan.

2. **What are the terms for repayment?**
   The credit amount is repaid in increments of 6.67% of the credit amount over 15 years. For individuals who take the full $7500 credit, the repayment will be about $502.50 a year.

3. **When do I make the payment?**
   The mechanics are not specified. Repayments for credits claimed on 2008 tax returns will go into effect for the 2010 tax year. As a practical matter, then, repayments of credits taken in 2008 will not actually start until 2010 returns are filed in 2011. Repayments for credits claimed on 2009 returns will go into effect for the 2011 tax year and reflected on the 2011 returns filed in 2012.

4. **What if I sell my house before the 15-year repayment period is complete?**
   When the person who used the credit sells the home, any amount of tax credit that has not been repaid will be due in the year of the sale. For example, if an individual still "owed" $4000 in repayments and realized $25,000 of proceeds from the sale, the $25,000 of seller proceeds would be reduced to $21,000 and $4000 will be remitted to the IRS. The mechanics of how the IRS will carry this out are unknown.

5. **What if there's very little gain (or even a loss) on the sale and the proceeds won't cover the repayment amount?**
   If the gain on the sale is less than the amount that must be repaid, part of the liability is forgiven. For example, if the individual still "owed" $4000 but the gain on the sale was only $3500, then the seller would not be required to repay the IRS the $500 shortfall. If there was no gain or even a loss, then the remaining $4000 would not be repaid.

6. **Are there other exceptions to the repayment rules?**
   Yes. If the person who utilized the credit dies before the full credit amount has been repaid, then any balance that remains unpaid is disregarded. Special rules make adjustments for people who sell homes as part of a divorce, homes tha
   condemnation.

Effect on Housing Market & Ecc

Will this boost demand of home sales?

- This will increase housing demand, get home buyers back into the market place and fight failing housing prices, which threatens the economy as a whole.

- According the census data, first-time buyers constitute about 40% of all buyers.
- As more first-time buyers enter the market, this will stimulate buying up the housing ladder.
- Today, many consumers are well-positioned to buy a home but lack the confidence or incentive to jump into the marketplace. This tax credit will help get them off the fence.
- Prices have fallen in many markets, mortgage interest rates are still low and there is a huge selection of homes to choose from.

Has this been tested before?

Yes, this program has been successfully tested before. In 1975 in the midst of an economic recession, Congress enacted a temporary $2,000 tax credit for people buying new homes.

In a period of 9 months, buyers had flocked to the market. The tax credit helped to clear off a then-record number of unsold homes on the market and was an important tool in helping the economy dig its way out of the recession.

In short, the tax credit worked before, and we expect similar success in the year following this bill.

This information is deemed accurate, but please check with a tax advisor and an attorney about using these provisions as it applies to your situation.