

Homebuyer Credit

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A new first-time homebuyer credit of up to \$7,500 has been designed by Congress to entice middle-class taxpayers to get off the sidelines and buy their first home. This temporary tax credit applies for homes purchased after April 8, 2008 and before July 1, 2009. As with most tax law provisions, in trying to make the first-time homebuyer credit fair, Congress introduced some complicated rules. The basics, however, are fairly straightforward:

- The credit is equal to \$7,500 unless the purchase price is less than \$75,000, in which case the credit is 10 percent of the purchase price (\$3,750 for married individuals filing separately).
- Those with higher income are excluded from taking the credit. The new credit phases out for married couples filing jointly with modified adjusted gross income (AGI) between \$150,000 and \$170,000 (\$75,000 and \$95,000 for single taxpayers).

A first-time homebuyer is someone who has not owned a principal residence in over three years. Renters, even if they own a second home, can therefore qualify, as can someone who stopped owning a home three years ago.

Qualifying homeowners who purchase within the allowed time period in 2009 need not wait to file their 2009 returns to claim the credit; they may do so on a 2008 return. The credit amount (\$7,500 or less) must be paid back to the government over 15 years starting with the second year after purchase. It is therefore more an interest-free loan than a permanent tax credit. There are exceptions in cases of death, and an accelerated recapture provision that may require an immediate payback of any balance due when the house is sold or no longer used as a principal residence.