

Tax Credit To Aid First-Time Homebuyers

Must Be Repaid Over 15 Years

If you are considering taking advantage of the home buying market to purchase your first home we want to

sure make you are aware of a new tax credit. It is available for a limited time so you may want to take advantage

of it soon. If you bought a home recently, or are considering buying one, the following may help you

determine whether you qualify for the credit.

The credit applies to home purchases after April 8, 2008, and before July 1, 2009 and reduces a taxpayer's

tax bill or increases his or her refund, dollar for dollar. It is fully refundable, meaning that the credit will be paid

out to eligible taxpayers, even if they owe no tax or the credit is more than the tax that they owe.

However, the credit operates much like an interest-free loan, because it must be repaid over a 15-year

period. So, for example, an eligible taxpayer who buys a home today and properly claims the maximum

available credit of \$7,500 on his or her 2008 federal income tax return must begin repaying the credit by

including one-fifteenth of this amount, or \$500, as an additional tax on his or her 2010 return. Eligible

taxpayers will claim the credit on the new IRS Form 5405, which will be available for tax year 2008.

Q. Which home purchases qualify for the first-time homebuyer credit?

A. Only the purchase of a main home located in the United States qualifies and only for a limited time. Vacation

homes and rental property are not eligible. You must buy the home after April 8, 2008, and before July 1, 2009.

For a home that you construct, the purchase date is the first date you occupy the home.

Taxpayers who owned a main home at any time during the three years prior to the date of purchase are not

eligible for the credit. This means that first-time homebuyers and those who have not owned a home in the

three years prior to a purchase can qualify for the credit.

If you make an eligible purchase in 2008, you claim the first-time homebuyer credit on your 2008 tax return.

For an eligible purchase in 2009, you can choose to claim the credit on either your 2008 (or amended

2008 return) or 2009 return. Continued on Page 11

Q. How much is the credit?

A. The credit is 10 percent of the purchase price of the home, with a maximum available credit of \$7,500 for

either a single taxpayer or a married couple filing jointly. The limit is \$3,750 for a married person filing a

separate return. In most cases, the full credit will be available for homes costing \$75,000 or more. Whatever

the size of the credit a taxpayer receives, the credit must be repaid over a 15-year period.

Q. Are there income limits?

A. Yes. The credit is reduced or eliminated for higher-income taxpayers. This means the full credit is available

for married couples filing a joint return whose MAGI is \$150,000 or less and for other taxpayers whose MAGI is

\$75,000 or less.

Q. Who cannot take the credit?

A. If any of the following describe you, you cannot take the credit, even if you buy a main home:

- Your income exceeds the phase-out range. This means joint filers with MAGI of \$170,000 and above and

other taxpayers with MAGI of \$95,000 and above.

- You buy your home from a close relative. This includes your spouse, parent, grandparent, child or grandchild.

- You stop using your home as your main home. - You sell your home before the end of the year.

- You are a nonresident alien - You are, or were, eligible to claim the District of Columbia first-time homebuyer

credit for any taxable year. - Your home financing comes from tax-exempt mortgage revenue bonds.

- You owned another main home at any time during the three years prior to the date of purchase. For example,

if you bought a home on July 1, 2008, you cannot take the credit for that home if you owned, or had an

ownership interest in, another main home at any time from July 2, 2005, through July 1, 2008.

Q. How and when is the credit repaid?

A. The first-time homebuyer credit is similar to a 15-year interest-free loan. Normally, it is repaid in 15 equal

annual installments beginning with the second tax year after the year the credit is claimed. The repayment

amount is included as an additional tax on the taxpayer's income tax return for that year. For example, if you

properly claim a \$7,500 first-time homebuyer credit on your 2008 return, you will begin paying it back on your

2010 tax return. Normally, \$500 will be due each year from 2010 to 2024. There are some exceptions that

apply however.

For more details please visit www.irs.gov.