

First Time Homebuyer Credit

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Worker, Homeownership, and Business Assistance Act of 2009 (WHBAA)

- First time homebuyers have qualified for refundable tax credits as part of the economic stimulus package
- With that program set to expire at the end of November, Congress voted to extend and expand the program
- President Obama signed WHBAA into law, November 6, 2009

First Time Homebuyer Credit for 2008 Purchases

- Maximum credit \$7,500
- Repayment over 15 years - starting on tax year 2010 return
- Purchases must have been completed between 4/9/2008 and 12/31/2008



First Time Homebuyer Credit for 2009 and 2010 Purchases

- **First Time Homebuyers**
 - Maximum credit \$8,000,
 - Purchase must be completed between 01/01/2009 and 4/30/2010
- **Long Time Homeowners**
 - Maximum credit \$6,500
 - Purchase must be completed between 11/7/2009 and 4/30/2010
- **Credit allowed to homebuyers who sign a binding contract by 4/30/2010 and close by 6/30/2010**
- **No Repayment, unless home ceases to be main home within 3 years of purchase date**
- **Taxpayers can elect to claim credit on their prior year return. 2009 purchases can be claimed on a 2008 return, either original or amended. 2010 purchases can be claimed on a 2009 return, either original or amended.**



Purchase Date Extended for Military & Certain Civilians

- Members of the military and certain other federal employees serving outside the U.S. on extended duty beginning on or after 1/1/2009, have an extra year to buy a principal residence

Eligibility Requirements

- Must be primary residence
- Must close on the purchase prior to claiming credit
- Must be a first-time homebuyer to claim the \$7,500 credit for 2008 purchases or \$8,000 credit for 2009/2010 purchases
 - Must not have not owned a home in the three years prior to the purchase
- Must be long-time resident of same principal residence to claim \$6,500 credit for purchases after 11/6/2009
 - Must have owned and used the same principal residence for five consecutive years out of eight-year period ending on date of new purchase
- Must file Form 5405 with relevant return



Eligibility Limitations

- For purchases before 11/7/2009 – Credit is reduced for taxpayers with modified adjusted gross income between \$75,000 and \$95,000 for individuals; or between \$150,000 and \$170,000 for joint filers
- For purchases after 11/6/2009 – Income limits are increased to between \$125,000 and \$145,000 for individuals; or between \$225,000 and \$245,000 for joint filers

Eligibility Limitations (Continued)

- The definition of a purchase excludes property acquired from a related person
- Non-resident aliens are ineligible for credit
- Home cannot be acquired by gift or inheritance

New Requirements for Purchases after 11/6/2009

- No credit allowed if purchase price exceeds \$800,000
- Dependent cannot take a credit
- No credit allowed for a purchase from an in-law
- Purchaser must be at least 18 years old on the date of purchase. For a married couple, only one spouse must meet the age requirement
- Purchaser must attach a signed settlement statement to return



Repayments of Credit

- For 2008 purchases, normally repaid in 15 equal annual installments beginning in 2010
- For 2009/2010 purchases no repayment required unless a repayment trigger within 3 years

Repayment Triggers

- Home ceases to be a main home
- Convert home to rental or business use
- Home disposed of by foreclosure, repossession or abandonment
- Sell home

No Repayment Required for Military & Certain Civilians

- No repayment is required for members of the military or certain other federal employees if the residence is sold or ceases to be the taxpayer's principal residence after December 31, 2008, in connection with Government orders received by the individual (or the individual's spouse) for extended duty.

Requirement to File Form 5405

- Claim the First Time Homebuyer Credit
- Dispose of main home
- Repayment of credit

Common FTHBC Filing Errors

based on prior law trends and analysis

- Credit claimed prior to closing or taking occupancy of home
- Incomplete or incorrect Form 5405
- More than 10% of the purchase price claimed
- Taxpayer has owned a home in the last three years

More FTHBC Filing Errors

based on prior law trends and analysis

- Married filing separate taxpayers each incorrectly claim \$7,500 or \$8,000 credit on his or her separate returns
- Married taxpayers claim FTHBC when one spouse was a prior homeowner
- FTHBC claimed by two or more taxpayers for same purchase and the total amount claimed exceeds the maximum allowable credit



Required Documentation for Audits

- Most recent monthly mortgage statement
- Occupancy permit, if newly-constructed
- May be asked to submit a copy of the binding contract if required
- At least two of the following showing name and address:
 - Current driver's license or other state-issued identification
 - Recent pay statement (within the last two months)
 - Recent bank statement (within the last two months)
 - Current automobile registration



Failure to Comply Penalties

- Penalties can be imposed for negligence, substantial understatement of tax, filing an erroneous refund claim, and fraud
- Criminal penalties may be imposed for tax evasion, or making a false statement

Resources

- IRS.gov
 - Search “ARRA information center”
 - Search “first time homebuyer credit”
- Other Resources
 - Publication 523, Selling Your Home
 - Form 5405, First-Time Homebuyer Credit