Tax Credit Update – 20 Jan 2010

Sorting through the homebuyer tax credit

WASHINGTON (AP) – Jan. 20, 2010 – If you bought a home in 2009, you could be eligible for a tax credit. Figuring out which one can be confusing.

There's one credit for first-time homebuyers and another that primarily benefits homebuyers who owned a home before. But don't mix it up with the first-time homebuyer credit in 2008, which actually was a long-term loan.

There are maximum income levels and maximum sales prices. And vacation homes or rental property don't qualify.

"If you want to spend two hours reading the instructions and translating them and finding out whether you qualify, yes, it's relatively simple," said Jeff Schnepper, an MSN Money tax expert and author of "How to Pay Zero Taxes."

Some questions and answers about the homebuyers tax credit:

Q. What's the purpose of the credit?

A. Congress passed the tax credits in an effort to boost the struggling housing industry and fight recession. Indications are that it's had an impact. The National Association of Realtors reported that November sales of existing homes were up 44 percent from a year earlier. Although new home sales dropped in November, figures from the Commerce Department show that they're up 8 percent from the low in January 2009.

Q. How many people are claiming the credit?

A. "In all, 4.4 million households are expected to claim the tax credit before it expires," Lawrence Yun, the Realtors' chief economist, said in December.

Q. How many versions are there?

A. There are actually three.

The first credit, for first-time homebuyers, was really a long-term, interest-free loan that has to be paid back over 15 years. The maximum credit was $7,500 for a principal residence purchased between April 9, 2008, and June 30, 2009.

The second iteration made the first-time homebuyers credit a true credit – it doesn't have to be paid back – and raised the amount to a maximum $8,000. It applied to homes purchased between Jan. 1, 2009, and Nov. 30, 2009.

The third change extended the eligibility dates to homes purchased through April 30, 2010. It also added a credit for long-time homeowners who purchased a new residence between Nov. 7, 2009, and April 30, 2010, but at a reduced value – up to $6,500.

Q. Do I automatically qualify if I purchased a house during those periods?

A. No. To qualify, the house has to be used as a primary residence. If purchased after Nov. 6, 2009, it cannot have cost more than $800,000. If you're a long-time homeowner, you had to have lived in the same house consecutively for five out of the last eight years, though you need not have lived in or owned that house at the time you buy your new home.

For homes purchased after Nov. 6, 2009, the credit also begins phasing out for individuals with modified adjusted gross incomes above $125,000, and for married couples filing jointly with incomes above $225,000.

Q. How does the Internal Revenue Service define a principal residence?

A. "Your main home is the one you live in most of the time," the agency said. "It can be a house, houseboat, mobile home, cooperative apartment or condominium."

Q. What if I'm living overseas and I buy a home there?

A. The home doesn't qualify unless it's in the United States.

Q. How do I claim the credit?

A. There's a form, 5405, to fill out. You'll also have to submit a copy of your settlement statement, usually Form HUD-1, with the names and signatures of all parties, the property address, the sales price and date of purchase.

To avoid refund delays, the IRS recommends that long-time homeowners who purchase a new home also provide documents to show they meet the requirement for consecutive years lived in their old house. These can include mortgage interest statements, or property tax or homeowner's insurance records.

Q. Do I have to wait until I file my 2010 taxes to claim the credit for a home purchased before the deadline in 2010?

A. No. "You can choose to claim the credit on your 2009 return for a home you bought in 2010 that qualifies for the credit," the IRS said.

Q. I purchased my home in 2008 and filed for a credit on my tax returns. Do I still have to pay it back?

A. Yes. When Congress did away with the repayment requirement, it did not do so retroactively.

Q. What if I purchase the property for business?

A. You're not eligible. The house must be used as a primary residence to qualify.

Q. What if I want to keep my original house and use it as a rental property?

A. If you qualify for the credit as a long-time homeowner, nothing in the law requires you to sell the original house. However, you must make the new one your primary residence.

Q. What if I decide to sell the house I got the credit for or convert it to a rental property?

A. You will have to pay back the credit if you don't keep the purchased house as your permanent residence for three years.