

First-Time Home Buyer Tax Credit

Answers to the most commonly asked questions

In its efforts to stimulate the economy and revive the housing market, Congress has enacted legislation that provides a tax credit of up to \$8,000 for first-time home buyers. The American Recovery and Reinvestment Act of 2009, signed into law on February 17, 2009, is a stimulus package that makes a non-repayable tax credit of up to \$8,000 to qualified first-time home buyers purchasing a principal residence on or after January 1, 2009, and before December 1, 2009.

- The tax credit is for first-time home buyers only. For the tax credit program, the IRS defines a first-time home buyer as someone who has not owned a principal residence during the three-year period prior to the purchase.
- The tax credit does not have to be repaid.
- The tax credit is equal to 10 percent of the home's purchase price up to a maximum of \$8,000.
- The credit is available for homes purchased on or after January 1, 2009, and before December 1, 2009.
- Single taxpayers with incomes up to \$75,000 and married couples with incomes up to \$150,000 qualify for the full tax credit.

The following information has been edited for length and is used with permission from the National Association of Home Builders' website, www.FederalHousingTaxCredit.com.

Who is eligible to claim the tax credit?

First-time home buyers purchasing any kind of home—new or resale—are eligible for the tax credit. To qualify for the tax credit, a home purchase must occur on or after January 1, 2009, and before December 1, 2009. For the purposes of the tax credit, the purchase date is the date when closing occurs and the title to the property transfers to the homeowner.

What is the definition of a first-time home buyer?

The law defines "first-time home buyer" as a buyer who has not owned a principal residence during the three-year period prior to the purchase. For married taxpayers, the law tests the homeownership history of both the home buyer and his or her spouse. For example, if you have not owned a home in the past three years but your spouse has owned a principal residence, neither you nor your spouse qualifies for the first-time home buyer tax credit. However, unmarried joint purchasers may allocate the credit amount to any buyer who qualifies as a first-time buyer, such as may occur if a parent jointly purchases a home with a son or daughter. Ownership of a vacation home or rental property not used as a principal residence does not disqualify a buyer as a first-time home buyer.

How is the amount of the tax credit determined?

The tax credit is equal to 10 percent of the home's purchase price up to a maximum of \$8,000.

Are there any income limits for claiming the tax credit?

Yes. The income limit for single taxpayers is \$75,000; the limit is \$150,000 for married taxpayers filing a joint return. The tax credit amount is reduced for buyers with a modified adjusted gross income (MAGI) of more than \$75,000 for single taxpayers and \$150,000 for married taxpayers filing a joint return. The phase-out range for the tax credit program is equal to \$20,000. That is, the tax credit amount is reduced to zero for taxpayers with MAGI of more than \$95,000 (single) or \$170,000 (married) and is reduced proportionally for taxpayers with MAGIs between these amounts.

What is "modified adjusted gross income"?

Modified adjusted gross income or MAGI is defined by the IRS. To find it, a taxpayer must

first determine “adjusted gross income” or AGI. AGI is total income for a year minus certain deductions (known as “adjustments” or “above-the-line deductions”), but before itemized deductions from Schedule A or personal exemptions are subtracted. On Forms 1040 and 1040A, AGI is the last number on page 1 and first number on page 2 of the form. For Form 1040-EZ, AGI appears on line 4 (as of 2007). Note that AGI includes all forms of income including wages, salaries, interest income, dividends, and capital gains. To determine modified adjusted gross income (MAGI), add to AGI certain amounts such as foreign income, foreign-housing deductions, student-loan deductions, IRA-contribution deductions, and deductions for higher-education costs.

If my modified adjusted gross income (MAGI) is above the limit, do I qualify for any tax credit?

Possibly. It depends on your income. Partial credits of less than \$8,000 are available for some taxpayers whose MAGI exceeds the phase-out limits.

How is this home buyer tax credit different from the tax credit that Congress enacted in July of 2008?

The most significant difference is that this tax credit does not have to be repaid. Because it had to be repaid, the previous “credit” was essentially an interest-free loan. This tax incentive is a true tax credit. However, home buyers must use the residence as a principal residence for at least three years or face recapture of the tax credit amount. Certain exceptions apply.

How do I claim the tax credit? Do I need to complete a form or application?

Participating in the tax credit program is easy. You claim the tax credit on your federal income tax return. Specifically, home buyers should complete IRS Form 5405 to determine their tax credit amount, and then claim this amount on Line 69 of their 1040 income tax return. No other applications or forms are required, and no pre-approval is necessary. However, you will want to be sure that you qualify for the credit under the income limits and first-time home buyer tests. Note that you cannot claim the credit on Form 5405 for an intended purchase for some future date; it must be a completed purchase.

What home types qualify for the tax credit?

Any home that will be used as a principal residence will qualify for the credit. This includes

single-family detached homes, attached homes like townhouses and condominiums, manufactured homes (also known as mobile homes), and houseboats. The definition of principal residence is identical to the one used to determine whether you may qualify for the \$250,000 / \$500,000 capital gain tax exclusion for principal residences.

I read that the tax credit is “refundable.” What does that mean?

The fact that the credit is refundable means that the home buyer credit can be claimed even if the taxpayer has little or no federal income tax liability to offset. Typically this involves the government sending the taxpayer a check for a portion or even all of the amount of the refundable tax credit. For example, if a qualified home buyer expected, notwithstanding the tax credit, federal income tax liability of \$5,000 and had tax withholding of \$4,000 for the year, then without the tax credit the taxpayer would owe the IRS \$1,000 on April 15. Suppose now that the taxpayer qualified for the \$8,000 home buyer tax credit. As a result, the taxpayer would receive a check for \$7,000 (\$8,000 minus the \$1,000 owed).

Is a tax credit the same as a tax deduction?

No. A tax credit is a dollar-for-dollar reduction in what the taxpayer owes. That means that a taxpayer who owes \$8,000 in income taxes and who receives an \$8,000 tax credit would owe nothing to the IRS. A tax deduction is subtracted from the amount of income that is taxed. Using the same example, assume the taxpayer is in the 15 percent tax bracket and owes \$8,000 in income taxes. If the taxpayer receives an \$8,000 deduction, the taxpayer’s tax liability would be reduced by \$1,200 (15 percent of \$8,000), or lowered from \$8,000 to \$6,800.

Do I qualify if I bought a home in 2008?

No, but if you purchased your first home between April 9, 2008, and January 1, 2009, you may qualify for a different tax credit. For more information, visit FederalHousingTaxCredit.com.

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