

# UNDERSTANDING THE HOMEBUYER TAX CREDIT

## THE BASICS

### Q. What is the new tax incentive?

A. The 2008 \$7500 repayable credit is increased to \$8000 and the repayment feature is eliminated for 2009 purchasers. Any home that is purchased for \$80,000 or more qualifies for the full \$8000 amount. If the house costs less than \$80,000, the credit will be 10% of the cost. It is available for the purchase of a principal residence on or after January 1, 2009 and before December 1, 2009.

### Q. Who is eligible?

A. Only first-time homebuyers are eligible, those who have not had any ownership interest in a home in the three years previous to the day of the 2009 purchase.

### Q. How does a tax credit work?

A. Every dollar of a tax credit reduces income taxes by a dollar. Credits are claimed on an individual's income tax return. A qualified purchaser figures out their total tax owed and then the tax credits are applied to reduce the total tax bill, i.e. if a person has a total tax liability of \$9500, an \$8000 credit would wipe out all but \$1500 of the tax due.

### Q. What happens if the purchaser is eligible for an \$8000 credit but their entire income tax liability for the year is only \$6000?

A. If the total tax liability was \$6000, the IRS would send the purchaser a check

for \$2000. The refundable amount is the difference between \$8000 credit amount and the amount of tax liability, determined by tables that the IRS prepares each year.

### Q. Is there an income restriction?

A. Yes. The income restriction is based on the tax filing status the purchaser claims. Individuals filing as Single (or Head of Household) are eligible for the credit if their income is no more than \$75,000. Married couples who file a joint return may have income of no more than \$150,000.

### Q. Do individuals with higher incomes lose all the benefit of the credit?

A. Not always. The credit phases-out between \$75,000 - \$95,000 for singles and \$150,000 - \$170,000 for married filing jointly. The closer a buyer comes to the maximum phase-out amount, the smaller the credit will be. The law provides a formula to gradually withdraw the credit.

### Q. How is "principal residence" defined?

A. Generally, a principal residence is where an individual spends most of his/her time (generally defined as more than 50%). Also defined as owner-occupied housing, it includes single-family detached housing, condos or co-ops, townhouses or any similar type of new or existing dwelling.

### Q. Do I have to repay the 2009 tax credit?

A. There is no repayment.

## THE PROCESS

### Q. How do I apply for the credit?

A. All eligible purchasers simply claim the credit on their IRS Form 1040 tax return. The credit will be reflected on a new Form 5405 that will be attached to the 1040. Form 5405 can be found at [www.irs.gov](http://www.irs.gov).

### Q. Can I use it as part of my downpayment?

A. No. Pre-funding for closing costs would require cumbersome processes that would, in effect, bring the IRS into the purchase and settlement phase of the transaction.

### Q. Is there a way to get any cash flow benefits before I file my tax return?

A. Yes. Any first-time homebuyers who are eligible for all or part of the credit can modify their income tax withholding (through their employers) or adjust their quarterly estimated tax payments. Individuals subject to income tax withholding would get an IRS Form W-4 from their employer. In many cases their withholding would decrease and their take-home pay would increase. Those who make estimated tax payments would make similar adjustments.

## MAKING IT WORK

### Q. What if I can't settle before December 1?

A. The credit is available for purchases before December 1, 2009. A home is

considered as "purchased" when all events have occurred that transfer the title from the seller to the new purchaser.

### Q. Do I have to wait until next year to get the credit?

A. Eligible homebuyers who make their purchase between January 1, 2009 and December 1, 2009 can treat the purchase as if it had occurred on December 31, 2008. Thus, they can claim the credit on their 2008 tax return that is due on April 15, 2009. Three filing options are available:

1. Claim the \$8000 credit on the 2008 return due on April 15;
2. Extend the 2008 income-tax filing until as late as October 15, 2009. (The taxpayer must file for the extension);
3. If you have already filed your 2008 return before the purchase of a home, file an amended 2008 tax return on Form 1040X. (Available at [www.irs.gov](http://www.irs.gov)).

### Q. Will I ever have to repay the credit?

A. If you claim the credit but then sell the property within three years of the date of purchase, you are required to pay back the full amount of any credit, including any refund you received from it. A few exceptions apply.

*Source: National Association of REALTORS®*

*NOTE: This document is for informational purposes and should not be construed as tax or legal advice. For specific advice on their own tax situation consumers should always consult a qualified tax professional.*

## NOW IS A GOOD TIME TO BUY A HOME



REALTOR®

The \$8,000 first-time homebuyer tax credit is one of 10 key provisions of the American Recovery and Reinvestment Act signed into law on Feb. 17, 2009 and provides for the purchase of a principal residence on or after January 1, 2009 and before December 1, 2009. The credit does not require repayment.

A window of opportunity has opened that may never be seen again with the first-time tax credit, but there are more reasons to buy NOW:

### Great Incentives

The \$8,000 first-time homebuyer tax credit gives buyers a great incentive to get into the market and for sellers this means they have a better chance to become a move-up buyer.

### Affordability

Prices are the lowest in years and interest rates are historically low.

### Building Wealth

The median net worth of a renter household is \$4,800, while the median net worth of a homeowner household is \$171,700. (Federal Reserve Survey of Consumer Finances)

### Tax Breaks

Tax advantages to homeownership include: interest payments on mortgages and

property taxes in most cases; and home equity loans which may also be used to consolidate debt, thereby making all the debt interest tax deductible.

### A Long-Term Investment

Real estate remains a good long-term investment. Typical annual rate of appreciation is five percent and the homeowner who made a cash down payment of 10 percent generally will receive a 94 percent return on that cash after owning the home only three years, 225 percent after five years and 623 percent after 10 years. (Harvard University's Joint Center for Housing Studies)

Visit [MassHomeFacts.org](http://MassHomeFacts.org) for more information.

## A Window of Opportunity

## THE 2009 FIRST-TIME HOMEBUYER TAX CREDIT

EXPIRES  
December  
01  
2009



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