

## Credit for first-time homebuyers

The single largest provision in the \$15.1 billion package of housing tax incentives in the recently enacted Housing Assistance Tax Act of **2008** (the "Housing Act") is a measure allowing individuals buying their first home to take a tax credit of up to \$7,500 of the purchase price. Qualified homebuyers can subtract the credit amount from their federal income tax when they buy a home and even get a refund if the credit exceeds the tax. However, they are then required to pay the credit back over 15 years. The result is that the credit resembles an interest-free loan that must be repaid to the government. Here are the details of the new credit:

- The home must be located in the U.S. and must be the taxpayer's principal residence (main home). The taxpayer (and the taxpayer's spouse if married) must not have owned another principal residence in the U.S. in the three-year period before purchasing the new home. Thus, the home does not literally have to be the taxpayer's first home.
- The home must have been purchased from April 9, **2008** through June 30, 2009, inclusive. Purchases from certain related persons and acquisitions by gift or inheritance do not qualify. A home constructed by the taxpayer does qualify if the taxpayer moves in from April 9, **2008** through June 30, 2009.
- A special rule allows taxpayers who purchase a principal residence in the first six months of 2009 to treat the purchase as if made on Dec. 31, **2008**. This allows the taxpayer to claim the credit for **2008** rather than 2009.
- The credit is equal to 10% of the price paid for the home, up to a maximum of \$7,500. The \$7,500 maximum credit applies to both individuals and married couples filing a joint return. A married individual filing separately can claim a maximum credit of \$3,750.
- The credit is phased out for individual taxpayers with modified adjusted gross income (AGI) between \$75,000 and \$95,000 (\$150,000 and \$170,000 for joint filers) for the year of purchase. Taxpayers with modified AGI over \$95,000 (\$170,000 for joint filers) cannot claim the credit.
- The credit is refundable, meaning that households with incomes too low to owe income tax can benefit from it.
- In the second year after purchase, taxpayers who took the credit must start paying back the credit in equal installments over 15 years, with no interest charge. This works as follows. Suppose a first-time homebuyer purchases a home for \$100,000 this coming December and claims the maximum credit of \$7,500 on his **2008** tax return. He would then be required to pay back \$500 (one-fifteenth of the credit) on his tax return for 2010 and for each of the following 14 years, through 2024.
- If the taxpayer sells the home (or the home ceases to be the principal residence of the taxpayer or the taxpayer's spouse) before complete repayment of the credit, any remaining credit is due on the tax return for the year in which the home is sold (or ceases to be the principal residence). If the home was sold at a loss to an unrelated person, repayment of the remaining credit is forgiven to the extent of the loss.
- No credit is allowed if: the taxpayer was ever entitled to a D.C. homebuyer credit; the home purchase was financed through tax-exempt mortgage revenue bonds; the taxpayer is a nonresident alien; or the taxpayer disposes of the residence (or it ceases to be a principal residence) in the year of purchase.

I hope this information is helpful. If you would like more details about this provision or any other aspect of the new law, please do not hesitate to call.