

# FIRST TIME HOME BUYER TAX CREDIT

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# Previous Version

- ▣ In 2008 Congress created a \$7,500 First Time Homebuyer Tax Credit.
- ▣ It went into effect April 8, 2008 and was set to expire July 1, 2009.
- ▣ *The big problem:* it had to be repaid over 15 years. People viewed it as debt and not a benefit.

# The 2009 Tax Credit Revised

- ▣ Repayment requirement has been removed.
- ▣ The credit applies to purchases made on or after Jan. 1, 2009 and before December 1, 2009.
- ▣ Credit has been increased to \$8,000.
- ▣ It is still only for first time homebuyers who are purchasing a primary residence. Investment properties and second homes are not eligible.
- ▣ *it is still repayable for purchases made in 2008.*

# Credit Details—How does it work.

- ▣ The new credit is an \$8,000 REFUNDABLE tax credit (up to 10% of the purchase price). Every dollar of tax credit reduces income tax by 1 dollar.
  - if the property is \$75,000, the credit would be \$7,500. assume the property is over \$80,000 for the rest of this discussion.
- ▣ Refundable means that if your total tax liability in the given year is less than \$8,000, the IRS will send a refund for the balance.
  - example: Tax liability is \$6,000 and credit is \$8,000, IRS will send the purchaser a check for \$2000.
  - example: Tax liability is \$10,000 and credit is \$8,000, filers would still IRS \$2,000.

# Refundability–Why it is important

- ▣ Many taxpayers do not have a tax liability that exceeds \$8,000.

-example, according the 2008 IRS Tax Tables:

a single filer would need \$46,600 in taxable income to have \$8,000 in tax liability.

a couple would need \$58,600 in taxable income to have \$8,000 in tax liability.

those with less tax liability will in most cases get a refund meaning they get the full value of the credit.

# Who can use the credit?

- ▣ First time home buyers only.
  - a first time home buyer is defined as someone who has not had an ownership interest in a residence for the previous 3 years.
- ▣ If a previous residence was owned, the 3 year period is measured from the date of purchase.

## First time home buyer– examples.

- ▣ If someone purchased a home on Feb. 28<sup>th</sup>, 2009, purchaser would not be eligible for credit on that home if they had any ownership interest in a home any time from Feb. 28<sup>th</sup>, 2006 through Feb. 28, 2009.
- ▣ If they owned a home prior to Feb. 28, 2006, they would be eligible even though it is really not their “first” home
- ▣ Married couples that file joint returns, both must meet the first time homebuyer test to be eligible for the credit.

# Who is not eligible for the credit?

▣ If any of the following apply:

-not a first time homebuyer.

-non resident aliens.

-income exceeds \$95k for individual filers or \$170,000 for joint filers.

-home is purchased from immediate family member.

-the home is no longer primary residence.

-home is sold before the end of 3 years.



# More on Income Limits

Type	Income Limit	Phase Out Start
Single Filers	\$95,000	\$75,000
Joint Filers	\$170,000	\$150,000

- For most individuals, adjusted gross income (AGI) is how their income is calculated. It is the final number that appears on the bottom line of the front page of IRS Form 1040.
- Single filers making over \$75k and joint filers making over \$150k, the credit is proportionately reduced as incomes approach \$95k and \$170k respectively.

example-couple makes \$165k, the excess amount is used to create a fraction  $15,000/20,000$  or 75% of the credit amount. 75% or \$6,000 of the credit would be disallowed. Buyer would still get a \$2,000 credit.

# The Home

- ▣ Property being purchase must be a primary residence. Primary residence is considered where you spend 50% or more of your time. It can be a single family detached, townhouse, or condo.
- ▣ Property must be in the United States.
- ▣ Vacation homes and rental/investment properties are not eligible.
- ▣ Newly constructed homes are allowed. The “purchase date” is the date you occupy the home. Move in date must be before December 1, 2009.

# Recapture–3 year Residency

- ▣ If the home is sold prior to 3 years of ownership, the tax credit must be repaid.
  - This is an improvement from the previous version. That credit had to be repaid in total over 15 years or the balance was collected upon the sale of the residence.
- ▣ This provision is designed to prevent flipping of homes.

# When can you claim the credit?

- ▣ It can be claimed on your 2008 tax return (to be filed by April 15<sup>th</sup> 2009) an amended 2008 tax return or the 2009 tax return.
- ▣ You can modify the tax withholding through employer or you can adjust the estimated quarterly tax.

## Tax Credit Comparison

<i>Feature</i>	Credit as created July 2008. applies to all qualified purchases on or after April 9, 2008	Revised Credit-effective for purchases on or after Jan. 1 2009 and before Dec. 1 2009.
<i>Amount of credit</i>	Lesser of 10% of the cost of home or \$7500	Maximum credit amount increased to \$8000
<i>Eligible Property</i>	Any single family residence (including condos and townhomes) that will be used as a primary residence.	No Change.
<i>Refundable</i>	Yes, Reduces or can eliminate income tax liability for the year of purchase.	No Change.
<i>Income Limit</i>	Yes, Full amount of credit available if AGI is less $\leq$ \$75k for individual and $\leq$ \$150k for joint.	No Change.
<i>First Time Homebuyer Only</i>	Yes. Purchaser (and purchaser's spouse) may not have ownership interest in a property for previous 3 years.	No Change.
<i>Repayment</i>	Yes. \$500 per year for 15 years.	No repayment for purchases on or after Jan. 1, 2009 and before Dec. 1, 2009.
<i>Recapture</i>	Yes. If home sold before the 15yr repayment period, outstanding balance was recaptured upon the sale of the property.	If home is sold within 3 years of purchase, entire amount of credit is recaptured on the sale. Applies only to homes purchased in 2009.
<i>Termination</i>	July 1, 2009	November 30, 2009
<i>Effective Date</i>	Purchases on or after April 9, 2008 and before Jan. 1, 2009. Repayment to begin in 2010 tax year.	All revisions are effective as of Jan. 1, 2009

# Caveat

- ▣ This information is accurate based on the information available as of March 15<sup>th</sup>, 2009.
- ▣ Terms and conditions of this program can change without notice.
- ▣ As with any tax law change, you should consult your tax advisor as to how this program may affect your situation.
- ▣ If you need a professional tax consultant, I would be happy to refer one.

# Conclusion

- ▣ The new credit has been greatly enhanced from the old version.
- ▣ It is a true dollar for dollar tax credit and does not have to be repaid as long as you occupy the home for at least 3 years.
- ▣ For more information on the first time home buyer tax credit and the 2009 Stimulous Legislation, visit:  
[http://www.realtor.org/government\\_affairs/gapublic/american\\_recovery\\_reinvestment\\_act\\_home?lid=ronav0019](http://www.realtor.org/government_affairs/gapublic/american_recovery_reinvestment_act_home?lid=ronav0019) or consult your tax advisor.

# Questions and Answers

- ▣ I will be happy to answer any questions regarding the presentation.
- ▣ I will be glad to answer any questions regarding real estate finance in general.



Thank you and if we can be of further assistance, please do not hesitate to us a call.

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