Federal Housing & Economic Recovery Act 2009

Tax Credit for First-Time Homeowners - FAQ's

In 2008, Congress enacted a $7500 tax credit designed to be an incentive for first-time homebuyers to purchase a home. The credit was designed as a mechanism to decrease the over-supply of homes for sale.

For 2009, Congress has increased the credit to $8000 and made several additional improvements. This revised $8000 tax credit applies to purchases on or after January 1, 2009 and before December 1, 2009.

1. What's this new homebuyer tax incentive for 2009?
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. Thus, if an individual purchased a home for $75,000, the credit would be $7500. It is available for the purchase of a principal residence on or after January 1, 2009 and before Dec. 1, 2009.

2. Who is eligible?
Only first-time homebuyers are eligible. A person is considered a first-time buyer if he/she has not had any ownership interest in a home in the three years previous to the day of the 2009 purchase.

3. How does a tax credit work?
Every dollar of a tax credit reduces income taxes by a dollar. Credits are claimed on an individual's income tax return. Thus, a qualified purchaser would figure out all the income items and exemptions and make all the calculations required to figure out his/her total tax due. Then, once the total tax owed has been computed, tax credits are applied to reduce the total tax bill. So, if before taking any credits on a tax return a person has total tax liability of $9500, an $8000 credit would wipe out all but $1500 of the tax due. ($9,500 - $8000 = $1500)

4. So what happens if the purchaser is eligible for an $8000 credit but their entire income tax liability for the year is only $6000?
This tax credit is what's called "refundable" credit. Thus, if the eligible purchaser's total tax liability was $6000, the IRS would send the purchaser a check for $2000. The refundable amount is the difference FIRST-TIME HOMEBUYER TAX CREDIT between $8000 credit amount and the amount of tax liability. ($8000 - $6000 = $2000) Most taxpayers determine their tax liability by referring to tables that the IRS prepares each year.

5. How does withholding affect my tax credit and my refund?
A few examples are provided at the end of this document. There are several steps in this calculation, but most income tax software programs are equipped to make that determination.

6. Is there an income restriction?
Yes. The income restriction is based on the tax filing status the purchaser claims when filing his/her income tax return. Individuals filing Form 1040 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.

7. How is my "income" determined?
For most individuals, income is defined and calculated in the same manner as their Adjusted Gross Income (AGI) on their 1040 income tax return. AGI includes items like wages, salaries, interest and dividends, pension and retirement earnings, rental income and a host of other elements. AGI is the final number that appears on the bottom line of the front page of an IRS Form 1040.

8. What if I worked abroad for part of the year?
Some individuals have earned income and/or receive housing allowances while working outside the US. Their income will be adjusted to reflect those items to measure Modified Adjusted Gross Income (MAGI). Their eligibility for credit will be based on their MAGI.

9. Do individuals with incomes higher than the $75,000 or $150,000 limits lose all the benefit of the credit?
Not always. The credit phases-out between $75,000 - $95,000 for singles and $150,000 - $170,000 for married filing joint. 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. Thus, the credit will disappear after an individual's income reaches $95,000 (single return) or $170,000 (joint return).

10. What's the definition of "principal residence?"
Generally, a principal residence is the home where an individual spends most of his/her time (generally defined as more than 50%). It is also defined as "owner-occupied" housing. The term includes single-family detached housing, condos or co-ops, townhouses or any similar type of new or existing dwelling. Even some houseboats or manufactured homes count as principal residences.

11. Are there restrictions on the location of the property?
Yes. The home must be located in the United States.

12. Are there restrictions related to the financing for the mortgage on the property?
In 2009, most financing arrangements are acceptable and will not affect eligibility for the credit. Congress eliminated the financing restriction that applied in 2008. (In 2008, purchasers were ineligible for the $7500 credit if the financing was obtained by means of mortgage revenue bonds.) Now, mortgage-revenue bond financing will not disqualify an otherwise-eligible purchaser. (Mortgage revenue bonds are tax-exempt bonds issued by a state housing agency. Proceeds from the bonds must be used for below market loans to qualified buyers.)

13. Do I have to repay the 2009 tax credit?
NO. There is no repayment for 2009 tax credits.

14. Do 2008 purchasers still have to repay their tax credit?
YES. The $7500 credit in 2008 was more like an interest-free loan. All eligible purchasers who claimed the 2008 credit will still be required to repay it over 15 years, starting with their 2010 tax return.