

## Key Points on the New Homebuyer Credit

### New stimulus law improves credit for 2009

The new economic stimulus law passed earlier this year—the American Recovery and Reinvestment Act of 2009—enhances the special tax credit for first-time homebuyers. However, this new tax break is still off-limits for certain taxpayers.

Background: The homebuyer tax credit was initially created by the Housing Assistance Tax Act of 2008. Under the housing law, you could claim a refundable tax credit equal to the lesser of \$7,500 or 10% of the price of a home purchased after April 8, 2008, and before July 1, 2009. For this purpose, a “first-time homebuyer” is defined as someone who has not owned a principal residence for the three years prior to the purchase.

Furthermore, if you made a qualified purchase in 2009, you did not have to wait until you filed your 2009 tax return to recover the tax benefit. You could elect to use the credit to offset your tax liability on your 2008 return.

However, there were two major disadvantages to the initial version of the credit.

1. Unlike the typical tax credit, you had to pay back the credit amount to the IRS in installments over a 15-year period. In addition, if you stopped using the home as your principal residence, you had to repay the full amount in that year.

2. The credit phased out if your modified adjusted gross income (MAGI) in the year of the purchase exceeded either \$75,000 for single filers or \$150,000 for joint filers. The phase-out was complete at \$95,000 of MAGI for single filers and \$170,000 for joint filers.

The new law modifies the credit for qualified purchases made after December 31, 2008, and before December 1, 2009. There are two key changes:

1. The maximum dollar amount is increased from \$7,500 to \$8,000.
2. You do not have to repay the credit as long as you continue to live in the home for at least three years following the purchase. However, you must recapture the credit if you stop using the home as your principal residence during this three-year period.

The refundable tax credit reduces tax liability on a dollar-for-dollar basis. For example, suppose you qualify for the maximum \$8,000 credit and your annual tax liability is \$10,000. You pay \$11,000 in withholding tax in 2009. As a result, you are entitled to a \$9,000 refund (\$8,000 credit + \$1,000 tax overpayment) on your return. On the other hand, if you paid only \$9,000 in withholding in 2009, you would receive a \$7,000 refund (\$8,000 credit – \$1,000 tax underpayment).

There is one major catch to the new credit: The phase-out rules still apply. Thus, only a partial credit or no credit is available to upper-income taxpayers.

Note: If you purchased a home early in 2009, you may have elected to claim the previous version of the credit on your 2008 return. Because the home purchase qualifies for the enhanced credit, you may want to file an amended return to recover the larger amount. And, the IRS recently issued new guidelines regarding the credit.

As always, consult with your tax professional for more details.