

# NAR Issue Brief Homebuyer Tax Credit



National Association of REALTORS® Government Affairs Division  
500 New Jersey Avenue, NW, Washington DC, 20001

FEATURE	Jan 1 – November 30, 2009 Rules as enacted February 2009	November 7 – April 30, 2010 Rules as enacted November 2009
<b>First-time Buyer Amount of Credit</b>	\$8000 (\$4000 married filing separate)	\$8000 (\$4000 married filing separate)
<b>First-time Buyer Definition for Eligibility</b>	May not have had an interest in a principal residence for 3 years prior to purchase	Same
<b>Current Homeowner Amount of Credit</b>	No Provision	\$6500 (\$3250 married filing separate)
<b>Effective Date Current Owner</b>	No Provision	November 7, 2009
<b>Current Homeowner Definition for Eligibility</b>	No Provision	Must have used the home sold or being sold as a principal residence consecutively for 5 of the previous 8 years
<b>Termination of Credit</b>	Purchases after November 30, 2009. (Becomes April 30, 2010 on Date of Enactment.)	Purchases after April 30, 2010
<b>Binding Contract Rule</b>	None	So long as a written binding contract to purchase is in effect on April 30, 2010, the purchaser will have until July 1, 2010 to close.
<b>Income Limits (Note: Increased income limits are effective as of date of enactment of bill)</b>	\$75,000 – single \$150,000 – married Additional \$20,000 phase out	\$125,000 – single \$225,000 – married Additional \$20,000 phase out
<b>Limitation on Cost of Purchased Home</b>	None	\$800,000 November 7, 2009
<b>Purchase by a Dependent</b>	No Provision	Ineligible November 7, 2009
<b>Anti-fraud Rule</b>	None	Purchaser must attach documentation of purchase to tax return

# NAR Frequently Asked Questions Homebuyer Tax Credit Changes



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Here are some of the most frequently asked questions on the changes to the Homebuyer Tax Credit

- Question:** Existing homeowner credit: Must the new house cost more than the old house?  
**Answer:** No. Thus, for example, individuals who move from a high cost area to a lower cost area who meet all eligibility requirements will qualify for the \$6500 credit.
- Question:** I am an existing homeowner. On October 25, 2009, I signed a contract to purchase a new home. I have lived in my current home for more than 5 consecutive years and am within the new income limits. I will go to settlement on November 20. If President Obama has signed the bill by the time I go to settlement, will I qualify for the new \$6500 tax credit?  
**Answer:** Yes. The existing homeowner credit goes into effect for purchases after the date of enactment (when the bill is signed). There is no reference to the date of contract for the new credit. The provision looks solely to the date of purchase, which is generally the date of settlement.
- Question:** I am a first-time homebuyer but was not within the prior income limits at the time I entered into my contract to purchase on October 30, 2009. I will be covered, however, by the new income limits. If the new rules have been signed into law by the time I go to settlement, will I be eligible for a credit?  
**Answer:** Yes. The new income limitations go into effect as soon as the President has signed the bill. The income limit and other eligibility rules will look to your status as of the date of purchase, which is the settlement date. So if the new rules have been signed when you go to settlement, you should be eligible for the credit (or a portion of the credit if you're within the phase-out range).
- Question:** I am an eligible existing homeowner. I have a fair amount of equity in my home. I have found a home with a non-negotiable price of \$825,000. Will I be able to use any of the \$6500 tax credit?  
**Answer:** No. The \$800,000 cap on the cost of the purchased home is firm at \$800,000. Any amount above \$800,000 makes the home ineligible for any portion of the credit. The \$800,000 is an absolute ceiling.
- Question:** I owned my home for 10 years, but sold it two years ago year and have been renting since. If I purchase a home, will I be eligible for the \$6500 tax credit if I meet all the other eligibility tests?  
**Answer:** Yes. Because you lived in the home for more than 5 consecutive years of the previous 8, you will qualify for the \$6500 credit. For example, Say John and his wife bought a home in 2000 and lived there until 2008 when he got a divorce. Whether John has been renting or bought in the interim, he WOULD INDEED be eligible for the credit because he owned a home and occupied it as his principal residence for 5 consecutive years out of the last 8 years. The keyword here is "consecutive." As long as he lived in that house for 5 years straight what he did since 3 years doesn't impact eligibility.
- Question:** I am an eligible first-time homebuyer. I entered into a contract to purchase on November 1, 2009. Do I have to go to closing before December 1? How does the extension date affect me?  
**Answer:** You do not have to close before December 1. Once the legislation has been signed, it will be as if the Nov 30 date had never existed. Therefore, so long as the contract settles before April 30 (or July 1, worst case), the purchaser will be eligible for the credit.

# Federal Housing Tax Credit

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## Frequently Asked Questions About the Move-Up/Repeat Home Buyer Tax Credit

The Worker, Homeownership, and Business Assistance Act of 2009 has established a tax credit of up to \$6,500 for qualified move-up/repeat home buyers (existing home owners) purchasing a principal residence after November 6, 2009 and on or before April 30, 2010 (or purchased by June 30, 2010 with a binding sales contract signed by April 30, 2010).

The following questions and answers provide **basic** information about the tax credit. If you have more specific questions, we strongly encourage you to consult a qualified tax advisor or legal professional about your unique situation.

1. **Who is eligible to claim the \$6,500 tax credit?**

Qualified move-up or repeat home buyers purchasing any kind of home are eligible to claim this credit.

2. **What is the definition of a move-up or repeat home buyer?**

The law defines a tax credit qualified move-up home buyer ("long-time resident") as a home owner who has owned and resided in a home for at least five consecutive years of the eight years prior to the purchase date. For married taxpayers, the law tests the homeownership history of both the home buyer and his/her spouse. Repeat home buyers do not have to purchase a home that is more expensive than their previous home to qualify for the tax credit.

3. **How is the amount of the tax credit determined?**

The tax credit is equal to 10 percent of the home's purchase price up to a maximum of \$6,500. Purchases of homes priced above \$800,000 are not eligible for the tax credit.

4. **Are there any income limits for claiming the tax credit?**

Yes. The income limit for single taxpayers is \$125,000; the limit is \$225,000 for married taxpayers filing a joint return. The tax credit amount is reduced for buyers with a modified adjusted gross income (MAGI) above those limits. The phaseout range for the tax credit program is equal to \$20,000. That is, the tax credit amount is reduced to zero for taxpayers with MAGI of more than \$145,000 (single) or \$245,000 (married) and is reduced proportionally for taxpayers with MAGIs between these amounts.

5. **What is "modified adjusted gross income"?**

Modified adjusted gross income or MAGI is defined by the IRS. To find it, a taxpayer must first determine "adjusted gross income" or AGI. AGI is total income for a year minus certain deductions (known as "adjustments" or "above-the-line deductions"), but before itemized deductions from Schedule A or personal exemptions are subtracted. On Forms 1040 and 1040A, AGI is the last number on page 1 and the first number on page 2 of the form. For Form 1040-EZ, AGI appears on line 4 (as of 2007). Note that AGI includes all forms of income including wages, salaries, interest income, dividends and capital gains.

To determine modified adjusted gross income (MAGI), add to AGI certain amounts of foreign-earned income. See IRS Form 5405 for more details.

6. **If my modified adjusted gross income (MAGI) is above the limit, do I qualify for any tax credit?**  
Possibly. It depends on your income. Partial credits of less than \$6,500 are available for some taxpayers whose MAGI exceeds the phaseout limits.

7. **Can you give me an example of how the partial tax credit is determined?**

Just as an example, assume that a married couple has a modified adjusted gross income of \$235,000. The applicable phaseout to qualify for the tax credit is \$225,000, and the couple is \$10,000 over this amount. Dividing \$10,000 by the phaseout range of \$20,000 yields 0.5. When you subtract 0.5 from 1.0, the result is 0.5. To determine the amount of the partial first-time home buyer tax credit that is available to this couple, multiply \$6,500 by 0.5. The result is \$3,250.

Here's another example: assume that an individual home buyer has a modified adjusted gross income of \$138,000. The buyer's income exceeds \$125,000 by \$13,000. Dividing \$13,000 by the phaseout range of \$20,000 yields 0.65. When you subtract 0.65 from 1.0, the result is 0.35. Multiplying \$6,500 by 0.35 shows that the buyer is eligible for a partial tax credit of \$2,275.

Please remember that these examples are intended to provide a general idea of how the tax credit might be applied in different circumstances. You should always consult your tax advisor for information relating to your specific circumstances.

8. **How is this home buyer tax credit different from the tax credit that Congress enacted in July of 2008? How is this different than the rules established in early 2009?**

The previous tax credits applied only to first-time home buyers and were for different amounts of money.

9. **How do I claim the tax credit? Do I need to complete a form or application? Are there documentation requirements?**

You claim the tax credit on your federal income tax return. Specifically, home buyers should complete IRS Form 5405 to determine their tax credit amount, and then claim this amount on line 67 of the 1040 income tax form for 2009 returns (line 69 of the 1040 income tax form for 2008 returns).

No other applications are required, and no pre-approval is necessary. However, you will want to be sure that you qualify for the credit under the income limits and repeat home buyer tests. Note that you cannot claim the credit on Form 5405 for an intended purchase for some future date; it must be a completed purchase. Home buyers must attach a copy of their HUD-1 settlement form (closing statement) to Form 5405 as proof of the completed home purchase.

10. **What types of homes will qualify for the tax credit?**

Any home that will be used as a principal residence will qualify for the credit, provided the home is purchased for a price less than or equal to \$800,000. This includes single-family detached homes, attached homes like townhouses and condominiums, manufactured homes (also known as mobile homes) and houseboats. The definition of principal residence is identical to the one used to determine whether you may qualify for the \$250,000 / \$500,000 capital gain tax exclusion for principal residences.

It is important to note that you cannot purchase a home from, among other family members, your ancestors (parents, grandparents, etc.), your lineal descendants (children, grandchildren, etc.) or your spouse or your spouse's family members. Please consult with your tax advisor for more information. Also see IRS Form 5405.

11. **I read that the tax credit is "refundable." What does that mean?**

The fact that the credit is refundable means that the home buyer credit can be claimed even if the taxpayer has little or no federal income tax liability to offset. Typically this involves the government sending the taxpayer a check for a portion or even all of the amount of the refundable tax credit.

For example, if a qualified home buyer expected, notwithstanding the tax credit, federal income tax liability of \$5,000 and had tax withholding of \$4,000 for the year, then without the tax credit the taxpayer would owe the IRS \$1,000 on April 15th. Suppose now that the taxpayer qualified for the \$6,500 home buyer tax credit. As a result, the taxpayer would receive a check for \$5,500 (\$6,500 minus the \$1,000 owed).

**12. Instead of buying a new home from a home builder, I hired a contractor to construct a home on a lot that I already own. Do I still qualify for the tax credit?**

Yes. For the purposes of the home buyer tax credit, a principal residence that is constructed by the home owner is treated by the tax code as having been "purchased" on the date the owner first occupies the house. In this situation, the date of first occupancy must be after November 6, 2009 and on or before April 30, 2010 (or by June 30, 2010, provided a binding sales contract was in force by April 30, 2010).

In contrast, for newly-constructed homes bought from a home builder, eligibility for the tax credit is determined by the settlement date. Be sure to check with a tax advisor in cases where a HUD-1 form is not used at settlement to be sure you have sufficient documentation to attach to IRS Form 5405.

**13. Can I claim the tax credit if I finance the purchase of my home under a mortgage revenue bond (MRB) program?**

Yes. The tax credit can be combined with an MRB home buyer program.

**14. I am not a U.S. citizen. Can I claim the tax credit?**

Perhaps. Anyone who is not a nonresident alien (as defined by the IRS) and who has owned and resided in a principal residence in the United States for at least five consecutive years of the eight years prior to the purchase date can claim the tax credit if they meet the income limits. For married taxpayers, the law tests the homeownership history of both the home buyer and his/her spouse. The IRS provides a definition of "nonresident alien" in IRS Publication 519.

**15. Is a tax credit the same as a tax deduction?**

No. A tax credit is a dollar-for-dollar reduction in what the taxpayer owes. That means that a taxpayer who owes \$6,500 in income taxes and who receives an \$6,500 tax credit would owe nothing to the IRS.

A tax deduction is subtracted from the amount of income that is taxed. Using the same example, assume the taxpayer is in the 15 percent tax bracket and owes \$6,500 in income taxes. If the taxpayer receives a \$6,500 deduction, the taxpayer's tax liability would be reduced by \$975 (15 percent of \$6,500), or lowered from \$6,500 to \$5,525.

**16. Is there a way for a home buyer to access the money allocable to the credit sooner than waiting to file their 2009 or 2010 tax return?**

Yes. Prospective home buyers who believe they qualify for the tax credit are permitted to reduce their income tax withholding. Reducing tax withholding (up to the amount of the credit) will enable the buyer to accumulate cash by raising his/her take home pay. This money can then be applied to the downpayment.

Buyers should adjust the withholding amount on their W-4 via their employer or through their quarterly estimated tax payment. IRS Publication 919 contains rules and guidelines for income tax withholding. Prospective home buyers should note that if income tax withholding is reduced and the tax credit qualified purchase does not occur, then the individual would be liable for repayment to the IRS of income tax and possible interest charges

and penalties.

In addition, rule changes made as part of the economic stimulus legislation allow home buyers to claim the tax credit and participate in a program financed by tax-exempt bonds. As a result, some state housing finance agencies have introduced programs that provide short-term second mortgage loans that may be used to fund a downpayment. Prospective home buyers should check with their state housing finance agency to see if such a program is available in their community. To date, 18 state agencies have announced tax credit assistance programs, and more are expected to follow suit. The National Council of State Housing Agencies (NCSHA) has compiled a list of such programs, which can be found [here](#).

**17. HUD allows "monetization" of the tax credit. What does that mean?**

It means that HUD will allow buyers using FHA-insured mortgages to apply their anticipated tax credit toward their home purchase immediately rather than waiting until they file their 2009 or 2010 income taxes to receive a refund. These funds may be used for certain downpayment and closing cost expenses.

Under the guidelines announced by HUD, non-profits and FHA-approved lenders are allowed to give home buyers short-term loans. The guidelines also allow government agencies, such as state housing finance agencies, to facilitate home sales by providing longer term loans secured by second mortgages.

Housing finance agencies and other government entities may also issue tax credit loans, which home buyers may use to satisfy the FHA 3.5 percent downpayment requirement.

In addition, approved FHA lenders can purchase a home buyer's anticipated tax credit to pay closing costs and downpayment costs above the 3.5 percent downpayment that is required for FHA-insured homes.

More information about the guidelines is available on the NAHB web site. Read the HUD mortgagee letter ([pdf](#)) and an explanation of the FHA Mortgagee Letter on Tax Credit Monetization ([pdf](#)). An FAQ about monetization ([pdf](#)) is available at the NAHB web site.

**18. If I'm qualified for the tax credit and buy a home in 2009 (or 2010), can I apply the tax credit against my 2008 (or 2009) tax return?**

Yes. The law allows taxpayers to choose ("elect") to treat qualified home purchases in 2009 (or 2010) as if the purchase occurred on December 31, 2008 (or if in 2010, December 31, 2009). This means that the previous year's income limit (MAGI) applies and the election accelerates when the credit can be claimed. A benefit of this election is that a home buyer in 2009 or 2010 will know their prior year MAGI with certainty, thereby helping the buyer know whether the income limit will reduce their credit amount.

Taxpayers buying a home who wish to claim it on their prior year tax return, but who have already submitted their tax return to the IRS, may file an amended return claiming the tax credit using Form 1040X. You should consult with a tax professional to determine how to arrange this.

**19. For a home purchase in 2009 or 2010, can I choose whether to treat the purchase as occurring in the prior or present year, depending on in which year my credit amount is the largest?**

Yes. If the applicable income phaseout would reduce your home buyer tax credit amount in the present year and a larger credit would be available using the prior year MAGI amounts, then you can choose the year that yields the largest credit amount.

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