

NAR Issue Brief

Homebuyer Tax Credit



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

More Homebuyers Qualify for Tax Credit

Ann Arbor, MI November 6, 2009 – Congress just passed an expanded version of the \$8,000 first time home buyer tax credit that was set to expire on November 30. “The new version of the tax credit has the potential to stimulate the housing market even more than the old version due to the fact that more people will qualify under the new rules,” “Although the tax credit remains at \$8,000 for home buyers that have not owned a primary residence in the last three years, it has been expanded to include a \$6,500 tax credit for home buyers that have lived in their current primary residence for at least five consecutive years out of the past eight years. Under the old rules, move-up home buyers did not qualify.” Consider these three examples:

Example 1:

Jane purchased a home in 2002, lived there for 5 years as her primary home, moved out in 2007, and turned that home into a rental property. If Jane decides to buy a new primary residence today, she would qualify for the \$6,500 tax credit based on the fact that she lived in the same residence as her primary home for at least five consecutive years out of the past eight.

Example 2:

Harry purchased a home in 2004, and lived there for the past 5 years as his primary home. If Harry decides to buy a new primary residence today, he would qualify for the \$6,500 tax credit based on the fact that he lived in the same residence as his primary home for at least five consecutive years out of the past eight.

Example 3:

Nicole purchased a home in 2006, and lived there for the past 3 years as her primary home. If Nicole decides to buy a new primary residence today, she would not qualify for the \$6,500 tax credit based on the fact that she did not live in the same residence as her primary home for at least five consecutive years out of the past eight.

The tax credit applies to homes purchased for less than \$800,000 before

May 1, 2010. "If you sign a binding contract to purchase a home before May 1st, you would need to close on the transaction before July 1, 2010," Nicholas said. "It works kind of like a gift certificate that can be redeemed for cash. You simply file a form with the IRS right after you buy your home, and the IRS will send you a check for the full amount of your credit."

The income limitation for single tax payers went up from \$75,000 under the old rules to \$125,000 under the new rules. For married tax payers, the income limitation went up from \$150,000 to \$225,000. "This means that more people will qualify for the credit – especially in parts of the country with higher costs of living," Nicholas said. "This should help stimulate parts of the housing market that may not have been impacted by the old version of the credit."

There are many creative ways of structuring your home purchase transaction in ways that maximize the benefits of the credit. Here are a few examples:

- The credit applies to 1-4 unit homes as long as you live in one of the units as your primary residence – you could live in one unit and rent out the others
- If two unmarried individuals buy a home, and only one of the individuals qualifies for the credit based on their income or past home ownership status, the individual who qualifies for the credit can claim the full credit. (Note: In the case of married couples, both spouses must qualify for the credit.)
- The credit applies even if you have co-signers on your mortgage loan