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New Rules for First-Time Homebuyer Tax Credit

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Background

In July 2008, the Housing and Economic Recovery Act established a temporary refundable first-time homebuyer tax credit equal to 10% of the purchase price of a principal residence, up to \$7,500 (\$3,750 if married filing separately). The credit applied to first-time homebuyers who purchased a home on or after April 9, 2008, and before July 1, 2009. Generally, you qualified as a first-time homebuyer if you, and your spouse if you were married, did not own any other principal residence during the 3-year period ending on the date of purchase. The credit was phased out for individuals with higher incomes, and had to be paid back over 15 years in equal installments (repayment would be accelerated if the home were to be sold during the 15-year period or if the home ceased to be the principal residence of you or your spouse during that time).

In February 2009, the American Recovery and Reinvestment Act of 2009 extended the credit to homes purchased by qualified first-time homebuyers through November 30, 2009. The new legislation also expanded the credit. The credit remained 10% of the purchase price of the home, but the dollar limit increased to \$8,000 (half that amount for married individuals filing separate returns) for home purchases made after December 31, 2008, and before December

1, 2009. In addition, for a home purchased in 2009, there was no requirement to pay back the credit over time, provided the home remained the principal residence of the homebuyer for 36 months.

New legislation

On November 6, 2009, President Obama signed into law the Worker, Homeownership, and Business Assistance Act of 2009. The Act extends the first-time homebuyer tax credit to principal residences purchased before May 1, 2010. (If you purchase a principal residence before July 1, 2010, you can still qualify for the credit provided that you enter into a written binding contract prior to May 1, 2010.)

The new legislation also makes a number of changes, effective for purchases made after November 6, 2009:

- Higher income limits now apply. The credit is reduced if your modified adjusted gross income (MAGI) exceeds \$125,000 (\$225,000 if married filing a joint return) and is completely eliminated if your MAGI reaches \$145,000 (\$245,000 if married filing a joint return).
- You can't claim the first-time homebuyer tax credit if the purchase price of your principal residence exceeds \$800,000.
- You may qualify for the credit even if you're not a first-time homebuyer. The new legislation allows some existing homeowners to qualify for the credit when they purchase a new principal residence. If you (and your spouse, if you're married) have maintained the same principal residence for at least 5 consecutive years in the 8-year period ending at the time you purchase a new principal residence, you could qualify for a credit of up to \$6,500 (\$3,250 if you're married and file separately).

If you purchase a qualifying principal residence in 2009, you can elect to treat the purchase as if it were made on December 31, 2008--allowing you to claim the credit on your 2008 federal income tax return. If you purchase a qualifying principal residence in 2010, you can elect to treat it as if the purchase occurred on December 31, 2009.

Additional limitations and provisions

The new legislation also includes additional limitations on the credit, effective for purchases made after November 6, 2009. You can't claim the credit unless you (or your spouse, if you're married) are 18 years of age. You also can't claim the credit if you purchase your principal residence from someone who is related to you or your spouse, or if you can be claimed by someone else as a dependent. The legislation also imposes new documentation requirements.

Special rules are established for members of the uniformed services and others who receive government orders for qualified official extended duty service.

Summary of rules for first-time homebuyer tax credit:

When was the home purchased?	4/9/08 through 12/31/08	1/1/09 through 11/6/09	11/7/09 through 4/30/10 (through 6/30/10 if binding written contract before 5/1/10)
Maximum credit	\$7,500 (\$3,750 if married filing separately)	\$8,000 (\$4,000 if married filing separately)	\$8,000 (\$4,000 if married filing separately)
Reduced credit available to existing homeowners?	No	No	Yes—homeowners who have maintained the same residence for 5 consecutive years eligible for maximum \$6,500 credit (\$3,250 if married filing separately)
Does the credit have to be paid back?	Yes—generally over 15 years in equal installments	No, provided the home remains your principal residence for 36 months	No, provided the home remains your principal residence for 36 months
Income phaseout	\$75,000 to \$95,000 (\$150,000 to \$170,000 if married filing jointly)	\$75,000 to \$95,000 (\$150,000 to \$170,000 if married filing jointly)	\$125,000 to \$145,000 (\$225,000 to \$245,000 if married filing jointly)
Maximum purchase price	No maximum	No maximum	\$800,000

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