

To help everyone better understand the extended and expanded home buyer tax credit, here are some highlights of the changes.

Who can claim the credit?

"First-time home buyers" who purchase homes between November 7, 2009 and April 30, 2010 are eligible for the credit. To qualify as a "first-time home buyer" the purchaser or his/her spouse may not have owned a residence during the three years prior to the purchase.

For current homeowners purchasing a home during the same time frame, they are also eligible for a tax credit, so long as the home being sold or vacated was their principal residence for five consecutive years within the last eight. To elaborate, it must be the same home; it is not enough that they have been homeowners for five consecutive years, they must have been in the same home for five consecutive years.

Another key point is that the existing home does not need to be sold. One must, however, occupy the new home as a principal residence and do so for three years or risk recapture of the credit. Also, the new home does not need to cost more than the old home despite the concept that it is directed at "move up" buyers.

How much is the credit and what are the income limits?

The maximum allowable credit for first-time home buyers is \$8,000 or 10% of the sales price, whichever is less. For current homeowners, it is \$6,500 or 10% of the sale price, whichever is less. Under the extended home buyer tax credit, single buyers with incomes up to \$125,000 and married couples with incomes up to \$225,000 may receive the maximum credit.

The credit decreases for single buyers who earn between \$125,000 and \$145,000 and between \$225,000 and \$245,000 for home buyers filing jointly. The amount of the tax credit decreases as his/her income approaches the maximum limit. Home buyers earning more than the maximum qualifying income – over \$145,000 for singles and over \$245,000 for couples – are not eligible for the credit.

What are the deadlines for qualifying for the credit?

Under the extended home buyer tax credit, as long as a written binding contract to purchase a home is in effect on April 30, 2010, and the deal is closed by July 1, 2010, one can claim the credit.

Will the tax credit need to be repaid?

No, the buyer does not need to repay the tax credit if he/she occupies the home for three years or more. However, if the property is sold during this three-year period, the full amount of the credit will be recouped on the sale. Another provision of the law waives the recapture provisions for service members who receive orders that require them to move.

Are there any other critical provisions?

- There are three provisions people should be aware of:
- There is an \$800,000 limitation on the cost of the home
- The purchaser must be at least 18 years old on the date of purchase
- For a married couple, only one spouse must meet this age requirement and dependents are not eligible to claim the credit

Finally, as an anti-fraud measure, purchasers must attach documentation of purchase to his/her tax return claiming the credit. Normally this would be a copy of the HUD-1, but could include other documents memorializing the settlement.

As with all tax matters, responsibility for complying with the tax code belongs to the taxpayer. Real estate professionals should recommend that their buyers consult their tax professionals to ensure eligibility for the credit and the proper way to claim the credit. For more information including the required IRS forms please contact the Internal Revenue Service at 800-829-1040.