

# Information for the \$7,500 First-Time Homebuyer Tax Credit authorized by the Housing and Economic Recovery Act of 2008.

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Tax Credit to Aid First-Time Homebuyers; Must Be Repaid Over 15 Years

IR-2008-106, Sept. 16, 2008

WASHINGTON — First-time homebuyers should begin planning now to take advantage of a new tax credit included in the recently enacted Housing and Economic Recovery Act of 2008.

Available for a limited time only, the credit:

Applies to home purchases after April 8, 2008, and before July 1, 2009.

Reduces a taxpayer's tax bill or increases his or her refund, dollar for dollar.

Is fully refundable, meaning that the credit will be paid out to eligible taxpayers, even if they owe no tax or the credit is more than the tax that they owe.

However, the credit operates much like an interest-free loan, because it must be repaid over a 15-year period. So, for example, an eligible taxpayer who buys a home today and properly claims the maximum available credit of \$7,500 on his or her 2008 federal income tax return must begin repaying the credit by including one-fifteenth of this amount, or \$500, as an additional tax on his or her 2010 return.

Eligible taxpayers will claim the credit on new IRS Form 5405. This form, along with further instructions on claiming the first-time homebuyer credit, will be included in 2008 tax forms and instructions and be available later this year on IRS.gov, the IRS Web site.

If you bought a home recently, or are considering buying one, the following questions and answers may help you determine whether you qualify for the credit.

### **Q. Which home purchases qualify for the first-time homebuyer credit?**

A. Only the purchase of a main home located in the United States qualifies and only for a limited time. Vacation homes and rental property are not eligible. You must buy the home after April 8, 2008, and before July 1, 2009. For a home that you construct, the purchase date is the first date you occupy the home.

Taxpayers who owned a main home at any time during the three years prior to the date of purchase are not eligible for the credit. This means that first-time homebuyers and those who have not owned a home in the three years prior to a purchase can qualify for the credit.

If you make an eligible purchase in 2008, you claim the first-time homebuyer credit on your 2008 tax return. For an eligible purchase in 2009, you can choose to claim the credit on either your 2008 (or amended 2008 return) or 2009 return.

### **Q. How much is the credit?**

A. The credit is 10 percent of the purchase price of the home, with a maximum available credit of \$7,500 for either a single taxpayer or a married couple filing jointly. The limit is \$3,750 for a married person filing a separate return. In most cases, the full credit will be available for homes costing \$75,000 or more. Whatever the size of the credit a taxpayer receives, the credit must be repaid over a 15-year period.

### **Q. Are there income limits?**

A. Yes. The credit is reduced or eliminated for higher-income taxpayers.

The credit is phased out based on your modified adjusted gross income (MAGI). MAGI is your adjusted gross income plus various amounts excluded from income—for example, certain foreign income. For a married couple filing a joint return, the phase-out range is \$150,000 to \$170,000. For other taxpayers, the phase-out range is \$75,000 to \$95,000.

This means the full credit is available for married couples filing a joint return whose MAGI is \$150,000 or less and for other taxpayers whose MAGI is \$75,000 or less.

**Q. Who cannot take the credit?**

A. If any of the following describe you, you cannot take the credit, even if you buy a main home:

Your income exceeds the phase-out range. This means joint filers with MAGI of \$170,000 and above and other taxpayers with MAGI of \$95,000 and above.

You buy your home from a close relative. This includes your spouse, parent, grandparent, child or grandchild.

You stop using your home as your main home.

You sell your home before the end of the year.

You are a nonresident alien.

You are, or were, eligible to claim the District of Columbia first-time homebuyer credit for any taxable year.

Your home financing comes from tax-exempt mortgage revenue bonds.

You owned another main home at any time during the three years prior to the date of purchase. For example, if you bought a home on July 1, 2008, you cannot take the credit for that home if you owned, or had an ownership interest in, another main home at any time from July 2, 2005, through July 1, 2008.

**Q. How and when is the credit repaid?**

A. The first-time homebuyer credit is similar to a 15-year interest-free loan. Normally, it is repaid in 15 equal annual installments beginning with the second tax year after the year the credit is claimed. The repayment amount is included as an additional tax on the taxpayer's income tax return for that year. For example, if you properly claim a \$7,500 first-time homebuyer credit on your 2008 return, you will begin paying it back on your 2010 tax return. Normally, \$500 will be due each year from 2010 to 2024.

You may need to adjust your withholding or make quarterly estimated tax payments to ensure you are not under-withheld.

However, some exceptions apply to the repayment rule. They include:

If you die, any remaining annual installments are not due. If you filed a joint return and then you die, your surviving spouse would be required to repay his or her half of the remaining repayment amount.

If you stop using the home as your main home, all remaining annual installments become due on the return for the year that happens. This includes situations where the main home becomes a vacation home or is converted to business or rental property. There are special rules for involuntary conversions. Taxpayers are urged to consult a professional to determine the tax consequences of an involuntary conversion.

If you sell your home, all remaining annual installments become due on the return for the year of sale. The repayment is limited to the amount of gain on the sale, if the home is sold to an unrelated taxpayer. If there is no gain or if there is a loss on the sale, the remaining annual installments may be reduced or even eliminated. Taxpayers are urged to consult a professional to determine the tax consequences of a sale.

If you transfer your home to your spouse, or, as part of a divorce settlement, to your former spouse, that person is responsible for making all subsequent installment payments.

**More:** *Page Last Reviewed or Updated: January 14, 2009*

[Congress recently approved a tax credit for first-time homebuyers](#) that can be worth up to \$7,500. The credit, however, acts more like a no-interest loan because it must be repaid to the government over 15 years.

The First-Time Homebuyer Credit can be claimed on [Form 5405](#), which is filed with your 2008 or 2009 federal tax return. **IRS Form 5405 form is included at the end of this document.**

For the who, what and how, see the following questions and answers:

**Q: What is the credit?**

A: The First Time Homebuyer Credit is a new tax credit included in the recently enacted Housing and Economic Recovery Act of 2008. The credit operates like an interest free loan because it must be repaid over a 15-year period.

**Q: How much is the credit?**

A: The credit is 10 percent of the purchase of the home, with a maximum available credit of \$7,500 for either a single taxpayer or a married couple filing a joint return; \$3,750 for married persons filing separate returns. The full credit is available for homes costing \$75,000 or more.

**Q. Which home purchases qualify for the first-time homebuyer credit?**

A. Only the purchase of a main home located in the United States qualifies. You must buy the home after April 8, 2008, and before July 1, 2009. For a home that you construct, the purchase date is the first date you occupy the home.

Taxpayers who owned a main home at any time during the three years prior to the date of purchase are not eligible for the credit. This means that first-time homebuyers and those who have not owned a home in the three years prior to a purchase can qualify for the credit. If you make an eligible purchase in 2008, you claim the first-time homebuyer credit on your 2008 tax return. For an eligible purchase in 2009, you can choose to claim the credit on either your 2008 (or amended 2008 return) or 2009 return.

**Q: When must I pay back the credit?**

A: You must begin repaying the loan the second year after claiming the credit. For example, if you properly claim the maximum available credit of \$7,500 on your 2008 federal tax return, you must begin repaying the credit by including one-fifteenth of this amount, or \$500, as an additional tax on your 2010 federal tax return. Normally, \$500 will be due each year from 2010 to 2024.

**Q. How is the credit repaid?**

A. The first-time homebuyer credit is similar to a 15-year interest-free loan. It is repaid in 15 equal annual installments beginning with the second tax year after the year the credit is claimed. You may need to adjust your withholding or make quarterly estimated tax payments to ensure you are not under-withheld.

Some exceptions apply to the repayment rule:

- If you die, any remaining annual installments are not due. If you filed a joint return and then you die, your surviving spouse would be required to repay his or her half of the remaining repayment amount.
- If you stop using the home as your main home, all remaining annual installments become due on the return for the year that happens. This includes situations where the main home becomes a vacation home or is converted to business or rental property. There are special rules for involuntary

conversions. Taxpayers are urged to consult a professional to determine the tax consequences of an involuntary conversion.

- If you sell your home, all remaining annual installments become due on the return for the year of sale. The repayment is limited to the amount of gain on the sale, if the home is sold to an unrelated taxpayer. If there is no gain or if there is a loss on the sale, the remaining annual installments may be reduced or even eliminated. Taxpayers are urged to consult a professional to determine the tax consequences of a sale.
- If you transfer your home to your spouse, or, as part of a divorce settlement, to your former spouse, that person is responsible for making all subsequent installment payments.

**Q: Can I apply for the credit if I bought a vacation home or rental property?**

A: No. Vacation homes and rental property do not qualify for this credit.

**Q: Who is considered to be a first-time homebuyer?**

A: Taxpayers who have not owned another home at any time during the three years prior to the date of purchase.

**Q: When would I have had to buy a new home?**

A: Only purchases of a main home located in the United States qualify, and the home must have been purchased after April 8, 2008, and before July 1, 2009. For a home you construct, the purchase date is the date you first occupy the home.

**Q: How do I apply for the credit?**

A: The credit is claimed on new IRS [Form 5405](#) and filed with your 2008 federal tax return.

**Q: How are repayments of the homebuyer credit tracked?**

A: A memo field will be present on taxpayer record and repayment will be tracked over the 15 year repayment period.

**Q: How will the IRS know if someone sells their residence before the 15 years are up?**

A: Through both self reporting and third-party information.

**Q. Are there income limits?**

A. Yes. The credit is reduced or eliminated for higher-income taxpayers. The credit is phased out based on your modified adjusted gross income (MAGI). For a married couple filing a joint return, the phase-out range is \$150,000 to \$170,000. For other taxpayers, the phase-out range is \$75,000 to \$95,000.

This means the full credit is available for married couples filing a joint return whose MAGI is \$150,000 or less and for other taxpayers whose MAGI is \$75,000 or less.

**Q: I purchased a home that qualifies for the First Time Homebuyer Credit. I will be renting two of the bedrooms and reporting the rental income on Schedule E. Will I still qualify for the credit if I use the home as my principal residence?**

A: Yes, if you are a first-time homebuyer of a principal residence in the United States, you generally may claim the first-time homebuyer credit, but certain limitations, including a limitation based on modified adjusted gross income, apply. See [Form 5405](#), First-Time Homebuyer Credit, for more details.

**Q: If two unmarried people buy a house together, how do they determine how much each may take of the credit?**

A: Two unmarried individuals buying a principal residence may allocate the credit among the individual owners in any reasonable manner. The total amount allocated between the owners may not exceed the smaller of \$7500 or 10% of the purchase price of the house.

**Q: Can a person with an ITIN, who qualifies as a resident, take this credit?**

A: Resident aliens with an ITIN are eligible to take the credit.

**Q: I don't owe taxes and did not have taxes taken from my paycheck, do I qualify for the credit?**

A: Yes, the credit is fully refundable, and you can claim the credit even if no taxes were withheld from your paycheck.

**Q. Who cannot take the credit?**

A. If any of the following describe you, you cannot take the credit, even if you buy a main home:

- Your income exceeds the phase-out range. This means joint filers with MAGI of \$170,000 and above and other taxpayers with MAGI of \$95,000 and above.
- You buy your home from a close relative. This includes your spouse, parent, grandparent, child or grandchild.
- You stop using your home as your main home.
- You sell your home before the end of the year.
- You are a nonresident alien.
- You are, or were, eligible to claim the District of Columbia first-time homebuyer credit for any taxable year.
- Your home financing comes from tax-exempt mortgage revenue bonds.
- You owned another main home at any time during the three years prior to the date of purchase. For example, if you bought a home on July 1, 2008, you cannot take the credit for that home if you owned, or had an ownership interest in, another main home at any time from July 2, 2005, through July 1, 2008.

The Act =>

<http://banking.senate.gov/public/ files/HousingandEconomicRecoveryActSummary.pdf>

The NAHB(National Association of Home Builders) Website=>

<http://www.federalhousingtaxcredit.com/>

If you have further questions.... Please feel free to contact the DallasLoanGuy, Tom Burris.

**Tom Burris**

Mortgage Banker

**Supreme Lending**

17290 Preston Rd #201

Dallas, TX 75252

214-763-4629

[tomburris@dallasloanguy.com](mailto:tomburris@dallasloanguy.com)

<http://www.dallasloanguy.com/>

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**First-Time Homebuyer Credit**

▶ Attach to Form 1040

**2008**

Attachment  
 Sequence No. **163**

Name(s) shown on return

Your social security number

**Part I General Information**

- A** Address of home qualifying for the credit (if different from the address shown on return)
- B** Date acquired (see instructions)
- C** If you are choosing to claim the credit on your 2008 return for a main home bought after December 31, 2008, and before July 1, 2009, check here (see instructions)

**Part II Credit**

<p><b>1</b> Enter the <b>smaller</b> of:</p> <ul style="list-style-type: none"> <li>• \$7,500 (\$3,750 if married filing separately), or</li> <li>• 10% of the purchase price of the home.</li> </ul> <p>If someone other than a spouse also held an interest in the home, enter only your share of this amount (see instructions)</p>	<b>1</b>	
<p><b>2</b> Enter your modified adjusted gross income (see instructions)</p>	<b>2</b>	
<p><b>3</b> Is line 2 more than \$75,000 (\$150,000 if married filing jointly)?</p> <p><b>No.</b> Skip lines 3 through 5 and enter the amount from line 1 on line 6.</p> <p><b>Yes.</b> Subtract \$75,000 (\$150,000 if married filing jointly) from the amount on line 2 and enter the result</p>	<b>3</b>	
<p><b>4</b> Divide line 3 by \$20,000 and enter the result as a decimal (rounded to at least three places).</p> <p><b>Do not</b> enter more than 1.000</p>	<b>4</b>	X .
<p><b>5</b> Multiply line 1 by line 4</p>	<b>5</b>	
<p><b>6</b> Subtract line 5 from line 1. This is your <b>credit</b>. Enter here and on Form 1040, line 69</p>	<b>6</b>	

**General Instructions**

Section references are to the Internal Revenue Code.

**Purpose of Form**

Use Form 5405 to claim the first-time homebuyer credit. The credit may give you a refund even if you do not owe any tax.

The credit operates much like an interest-free loan. You generally must repay it over a 15-year period. See *Repayment of Credit* on page 2.

**Who Can Claim the Credit**

In general, you can claim the credit if you are a first-time homebuyer. You (and your spouse if married) are considered a first-time homebuyer if:

- You purchased your main home located in the United States after April 8, 2008, and before July 1, 2009.
- You did not own any other main home during the 3-year period ending on the date of purchase.

If you constructed your main home, you are treated as having purchased it on the date you first occupied it.

**Main home.** Your main home is the one you live in most of the time. It can be a house, houseboat, house trailer, cooperative apartment, condominium, or other type of residence.

**Who Cannot Claim the Credit**

You cannot claim the credit if any of the following apply.

1. Your modified adjusted gross income is \$95,000 or more (\$170,000 or more if married filing jointly). See the instructions for line 2.
2. You are, or were, eligible to claim the District of Columbia first-time homebuyer credit for any tax year.
3. Your home financing comes from tax-exempt mortgage revenue bonds.
4. You are a nonresident alien.
5. Your home is located outside the United States.
6. You sell the home, or it ceases to be your main home, before the end of 2008.
7. You acquired your home by gift or inheritance.
8. You acquired your home from a related person. A related person includes:
  - a. Your spouse, ancestors (parents, grandparents, etc.), or lineal descendants (children, grandchildren, etc.).
  - b. A corporation in which you directly or indirectly own more than 50% in value of the outstanding stock of the corporation.
  - c. A partnership in which you directly or indirectly own more than 50% of the capital interest or profits interest.

For more information about related persons, see *Nondeductible Loss* in Chapter 2 of Pub. 544, *Sales and Other Dispositions of Assets*. When determining whether you acquired your main home from a related person, family members in that discussion (except item 7) include only the people mentioned in 8a above.

## Amount of the Credit

Generally, the credit is the smaller of:

- \$7,500 (\$3,750 if married filing separately), or
- 10% of the purchase price of the home.

You are allowed the full amount of the credit if your modified adjusted gross income (MAGI) is \$75,000 or less (\$150,000 or less if married filing jointly). The phase-out of the credit begins when your MAGI exceeds \$75,000 (\$150,000 if married filing jointly). The credit is eliminated completely when your MAGI reaches \$95,000 (\$170,000 if married filing jointly).

## Repayment of Credit

You generally must repay the credit over a 15-year period in 15 equal installments. The repayment period begins 2 years after the year in which you claimed the credit. Thus, if you claim the credit on your 2008 tax return, the repayment period begins in 2010 and you must include the first installment as additional tax on your 2010 tax return.

If your home ceases to be your main home before the 15-year period is up, you must include all remaining annual installments as additional tax on the return for the tax year that happens. This includes situations where you sell the home or convert it to business or rental property.

If you and your spouse claim the credit on a joint return, each spouse is treated as having been allowed half of the credit for purposes of repaying the credit.

**Example 1.** You claimed a \$7,500 credit on your 2008 tax return. You must include \$500 ( $\$7,500 \div 15$ ) as additional tax on your 2010 tax return and on each tax return for the next 14 years.

**Example 2.** You claimed a \$7,500 credit on your 2008 tax return. In 2009, you sold the home to your son. You must include \$7,500 as additional tax on your 2009 tax return.

**Exceptions.** The following are exceptions to the repayment rule.

- If you sell the home to someone who is **not** related to you, the repayment in the year of sale is limited to the amount of gain on the sale. (See item 8 under *Who Cannot Claim the Credit* for the definition of a related person.) When figuring the gain, reduce the adjusted basis of the home by the amount of the credit you did not repay.
- If the home is destroyed, condemned, or disposed of under threat of condemnation, and you acquire a new main home within 2 years of the event, you continue to pay the installments over the remainder of the 15-year repayment period.
- If, as part of a divorce settlement, the home is transferred to a spouse or former spouse, the spouse who receives the home is responsible for making all subsequent installment payments.

- If you die, any remaining annual installments are not due. If you filed a joint return and then you die, your surviving spouse would be required to repay his or her half of the remaining repayment amount.

## Specific Instructions

### Part I General Information

**Line B.** Enter the date you acquired the home. This is the date you purchased it (or the date you first occupied it if you constructed your main home).

**Line C.** You can choose to claim the credit on your 2008 Form 1040 for a main home purchased after December 31, 2008, and before July 1, 2009. If you make this choice, check the box.

### Part II Credit

**Line 1.** If two or more unmarried individuals buy a main home, they can allocate the credit among the individual owners using any reasonable method. The total amount allocated cannot exceed the smaller of \$7,500 or 10% of the purchase price. See *Purchase price* below.

**Note.** A reasonable method is any method that does not allocate all or a part of the credit to a co-owner who is not eligible to claim that part of the credit.

**Purchase price.** The purchase price is the adjusted basis of your home on the date you purchased it. This includes certain settlement or closing costs (such as legal fees and recording fees) and your down payment and debt (such as a first or second mortgage or notes you gave the seller in payment for the home). If you build, or contract to build, a new home, your purchase price can include costs of construction. For more information about adjusted basis, see Pub. 551, *Basis of Assets*.

**Line 2.** Your modified adjusted gross income is the amount from Form 1040, line 38, increased by the total of any:

- Exclusion of income from Puerto Rico, and
- Amount from Form 2555, lines 45 and 50; Form 2555-EZ, line 18; and Form 4563, line 15.

**Paperwork Reduction Act Notice.** We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103.

The average time and expenses required to complete and file this form will vary depending on individual circumstances. For the estimated averages, see the instructions for your income tax return.

If you have suggestions for making this form simpler, we would be happy to hear from you. See the instructions for your income tax return.