

Federal Housing & Economic Recovery Act 2008

Tax Credit for First-Time Homeowners Effective July 30, 2008



On July 30, the President signed the Housing and Economic Recovery Act into law, which will affect homeowners and homeowner programs through the country. Here is a review of one of the components of this far-reaching legislation.

Tax credit for first-time homeowners

The new Housing and Economic Recovery Act creates a \$7,500 tax credit for first-time homeowners. The law is designed to jump-start sales of homes and clear out unsold real estate inventories. The FAQs below explain the eligibility requirements and other provision of the bill. For more information see www.federalhousingtaxcredit.com for more consumer information.

1. Who is eligible to claim the \$7,500 tax credit?

First-time home buyers purchasing any kind of home, new or resale, are eligible for the tax credit if the home purchase occurs on or after April 9, 2008 and before July 1, 2009. For the purposes of the tax credit, the purchase date is the date when closing occurs. There are income limits based upon modified adjusted gross income levels (\$150,000 for married taxpayers filing jointly), and partial credits may be available to those who make more than the limit.

2. What is the definition of a first-time home buyer?

The law defines “first-time home buyer” as a buyer who has not owned a principal residence during the three-year period prior to the purchase.

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

Any home purchased by an eligible first-time home buyer will qualify for the credit, provided that the home will be used as a principal residence and the buyer has not owned a home in the previous three years. This includes single-family detached homes, attached homes like townhouse, and condominiums.

4. Does the credit amount differ based on tax filing status?

No, the credit is in general equal to \$7,500 for a qualified home purchase, whether the home buyer files taxes as a single or married taxpayer. However if a household files their taxes as “married filing separately” then the credit of \$7,500 is claimed as a \$3,750 credit on each of the two returns.

5. I heard that the tax credit is refundable. What does that mean?

This 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.

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6. What is the difference between a tax credit and a tax deduction.

A tax credit is a dollar for dollar reduction in what the taxpayer owes. That means that a taxpayer who owes \$7,500 in income taxes and who receives a \$7,500 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 \$75,000 in income taxes. If the taxpayer receives a \$7,500 deduction, the taxpayer's tax liability would be reduced by \$1,125 (15 percent of \$7,500) or lowered from \$7,500 to \$6,375.

7. Does the credit have to be paid back to the government? If so, what are the payback provisions?

Yes, the tax credit must be repaid. Home buyers will be required to repay the credit to the government, without interest, over 15 years or when the house is sold if there is sufficient capital gain from the sales. In essence, the tax credit operates like a zero-interest loan.

8. If I qualify for the tax credit and buy a home in 2009, can I apply the tax credit against my 2008 tax return?

The law allows taxpayers to choose to treat qualified home purchases of 2009 as if the purchase occurred on December 31, 2008. This will allow the buyer to choose the year that yields the largest credit amount based on gross income, adjusted for certain deductions and includes all forms of income including wages, salaries, interest income, dividends and capital gains.

9. What would make me ineligible for the program?

You cannot claim the credit if you are a nonresident alien, financed the property using a state or local housing agency's tax-exempt bond mortgage, or do not plan to use the house as your principal residence.

10. How do I claim the credit on my tax return?

If you pass the eligibility tests, simply request the credit on your tax return for either 2008 or 2009. Even if you buy in 2009, you can take the credit against your 2008 taxes by filing an amended return.

The association has launched an educational web site, www.federalhousingtaxcredit.com, with additional information for consumers.



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