

Demystifying the First-Time Homebuyer Tax Credit

As Part of Housing and Economic Recovery Act of 2008 – H.R. 3221

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A bill signed into law on July 30th, 2008 will allow first time homebuyers meeting specific criteria to utilize a \$7500 tax credit on the purchase of a primary residence. In order to qualify for the tax credit the home must have been purchased on or after April 9, 2008 and before July 1, 2009. Anyone interested in claiming this credit is highly encouraged to consult a tax advisor regarding housing bill H.R. 3221.

Housing bill H.R. 3221 includes stipulations for amount of credit, eligible property criteria, income limits, and a recapture clause in regards to this tax credit. This act specifically stipulates a temporary tax credit could be issued for of up to ten percent of the cost of a home but not to exceed \$7500. For example on a home costing \$55,000 the potential maximum credit allowed equals \$5,500. Any home costing more than \$75,000 still has only a maximum credit potential of \$7,500 total whether it is \$150,000 or \$350,000.

This credit cannot be used toward down payment as there is currently no provision made for that process. Instead the home buyer would claim the credit when filing their income taxes and use IRS form 1040 and any additional forms requested by the Internal Revenue Service. Additionally, this credit cannot be used in conjunction with any tax-exempt bond programs offered by a state housing agency.

This tax credit is available to first-time home buyers and previous home owners that have not owned a primary residence during the past 3 years. The property must be located in the United States and be classified as a single family residence which includes condos and co-ops.

The eligibility for this tax credit can also be impacted by the amount of adjusted gross income earned by the home buyer. The maximum credit is available to a single buyer with income of \$75,000 or if married and filing joint tax returns the

maximum is \$150,000 for the couple. The credit is still available to an individual with income of up to \$95,000 or up to \$170,000 for a joint return but the credit amount is reduced. For example a couple making \$165,000 of adjusted gross income would have their potential credit reduced to \$1,875.

Finally and most importantly to understand about this tax credit is that it must be paid back, called the “recapture clause.” Many consumers find the easiest way to understand this tax credit is by thinking of it as an interest-free loan. Any home buyer that claims this credit on their taxes becomes subject to repay the credit over the next 15 years at a percentage of 6.67% per year with no interest accrual. This equates to approximately \$502.50/year x 15 years assuming the \$7,500 maximum credit. If the home is sold prior to the 15 year repayment period the remaining balance would be paid from the proceeds of the home sale. If the proceeds of the sale do not cover the remaining balance then the outstanding balance may be forgiven. Again you are encouraged to visit a tax advisor as the rules and logistics of this program are still evolving.

Purchasing your first home may seem daunting in today’s world of “mortgage crisis,” high gas prices, and a seemingly unstable economy but help is available. Please do your homework on plans such as H.R. 3221, communities like Mueller Airport, and please enlist the help of a local REALTOR® to make your dreams of home ownership a reality.

The National Association of REALTORS® has created a Frequently Asked Questions handout that can help answer some of the questions we are unable to answer here due to space constraints. Please visit <http://www.REALTOR.org> and search H.R. 3221 for more information.

If you meet the following criteria you may be a candidate to utilize the Housing and Economic Recovery Act of 2008.



**HOUSING AND ECONOMIC RECOVERY ACT OF 2008
First-time Homebuyer Tax Credit**

FEATURE	H.R. 3221 Housing and Economic Recovery Act of 2008
Amount of Credit	Ten percent of cost of home, not to exceed \$7500
Eligible Property	Any single-family residence (including condos, co-ops) that will be used as a principal residence.
Refundable	Yes. Reduces income tax liability for the year of purchase. Claimed on tax return for that tax year.
Income Limit	Yes. Full amount of credit available for individuals with adjusted gross income of no more than \$75,000 (\$150,000 on a joint return). Phases out above those caps (\$95,000 and \$170,000, respectively).
First-time Homebuyer Only	Yes. Purchaser (and purchaser's spouse) may not have owned a principal residence in 3 years previous to purchase.
Recapture	Yes. Portion (6.67 % of credit) to be repaid each year for 15 years. If home sold before 15 years, then remainder of credit recaptured on sale.
Impact on District of Columbia Homebuyer Credit	DC credit not available if purchaser uses this credit.
Effective Date	Purchases on or after April 9, 2008
Termination	July 1, 2009
Interaction with Alternative Minimum Tax	Can be used against AMT, so credit will not throw individual into AMT.