



# FIRST TIME HOME BUYER TAX CREDIT

From the American Recovery and Reinvestment Act of 2009

## Frequently Asked Questions

<p><b>How much is the credit?</b></p>	<ul style="list-style-type: none"> <li>◆ 10% of the cost of the home</li> <li>◆ Maximum amount is \$8,000</li> <li>◆ Does not have to be repaid if the home purchased is used as a principle residence for 3 years</li> </ul>
<p><b>Who is eligible?</b></p>	<p>Basic requirements:</p> <ul style="list-style-type: none"> <li>◆ Purchaser and spouse who have not owned a home within the last three years</li> <li>◆ Must purchase from unrelated party</li> </ul> <p>Income limits:</p> <ul style="list-style-type: none"> <li>◆ Those making no more than \$75,000 (individual return) or \$150,000 (joint return) may receive the full amount</li> <li>◆ If more than \$95,000 (indiv) or \$170,000 (joint), buyers are ineligible</li> <li>◆ Those between these two points can receive a partial payment</li> </ul>
<p><b>What type of property can be purchased?</b></p>	<ul style="list-style-type: none"> <li>◆ Any single family residence</li> <li>◆ Must be used as a principal residence</li> <li>◆ Must close the transaction between January 1 and December 1, 2009.</li> </ul>
<p><b>How is the payment received?</b></p>	<ul style="list-style-type: none"> <li>◆ Claimed as a part of the buyer's 2008 or 2009 tax return</li> <li>◆ Refundable:             <ul style="list-style-type: none"> <li>▪ Not a reduction of your taxable income</li> <li>▪ Reduces your tax liability (See FAQ on the back for examples)</li> </ul> </li> </ul>
<p><b>How is this different from the 2008 tax credit?</b></p>	<ul style="list-style-type: none"> <li>◆ This tax credit does not need to be repaid</li> <li>◆ You receive \$500 more with this tax credit</li> <li>◆ This tax credit covers only homes purchased in 2009</li> </ul>

# First Time Home Buyer Tax Credit

## Frequently Asked Questions

### 1. **How is the partial tax credit determined?**

First, subtract either \$75,000 (for an individual) or \$150,000 (for joint filers) from the income of the borrower(s). Then divide the remaining amount by \$20,000—the result should be a fraction. Subtract that fraction from 1. Then multiply the result times \$8,000, and the result is the partial credit.

For example: a couple who files jointly makes \$160,000. The calculation would be:

$$\$160,000 - \$150,000 = \$10,000$$

$$\$10,000 / \$20,000 = .5$$

$$1 - .5 = .5$$

$$.5 * \$8,000 = \$4,000$$

They would be eligible for a \$4,050 credit.

### 2. **Does the credit amount differ if you file jointly or separately.**

No. The credit is \$8,000 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" (in effect, filing two returns), then the credit of \$8,000 is claimed as a \$4,000 credit on each of the two returns.

### 3. **How does a buyer apply for the credit?**

You will claim the credit on your IRS tax return. Specifically, you should complete IRS Form 5405 to determine your tax credit amount, and then claim this amount on Line 69 of their 1040 income tax return.

### 4. **What is the difference between a tax credit and a tax deduction?**

A tax deduction is subtracted from the amount of income that is taxed.

A tax credit is a dollar-for-dollar reduction in what the taxpayer owes. That means that a taxpayer who owes \$8,000 in income taxes and who receives a \$8,000 tax credit would owe nothing to the IRS.

### 5. **Can I use the credit as part of my down payment?**

There currently isn't a direct mechanism for this, but if you are purchasing later in the year, see FAQ 8.

### 6. **What does refundable mean?**

That means the credit can be claimed even if there is little or no tax liability. Here are some examples of how this would work:

- If you owed \$8,000 in taxes, after the \$8,000 credit you would owe nothing.
- If you owed \$3,000 in taxes, after the \$8,000 credit you would receive a refund of \$5,000.
- If you showed a refund a \$1,000, after the \$8,000 credit you would receive a refund of \$9,000.

### 7. **I purchased a home in early 2009 and have already filed to receive the 2008 tax credit. How can I claim the new \$8,000 tax credit instead?**

Home buyers in this situation may file an amended 2008 tax return with a 1040X form. You should consult with a tax advisor to ensure you file this return properly.

### 8. **Is there any way for a home buyer to access the credit funds sooner than waiting to file their 2009 tax return?**

Yes. If you think you will qualify for the tax credit, you are permitted to reduce your income tax withholding. You can do this by adjusting your withholding amount on their W-4 via their employer or through their quarterly estimated tax payment. Reducing your withholding (up to the amount of the credit) will enable you to accumulate cash by raising your take home pay. This money can then be applied to the down payment.