

# HBS Tax-Facts: “First-Time” Homebuyer Tax Credit



## Summary

The Worker, Homeownership and Business Assistance Act of 2009 extended and expanded the applicability of the First-Time Homebuyer Tax Credit that was initially created in 2008. Since its inception, the credit has taken several forms, each with different rules and consequences. **The items outlined below only apply to homes placed under contract between November 7th, 2009 and April 30th, 2010, and closed on by June 30th, 2010.**

## “First-Time” Homebuyers

**“First-Time” Home Buyers:** Taxpayers who have had no ownership in a principle residence in the United States for the three year period prior to the purchase of the new home. The credit is equal to 10% of the home’s purchase price up to a maximum credit of \$8,000 (\$4,000 for those married filing separately).

## Long-Time Owners of the Same Principle Residence

**Long-Time Homeowners of the Same Principle Residence:** Taxpayers who owned and maintained the same principle residence for any five consecutive years during the eight years prior to the purchase date of the new home. The credit is equal to 10% of the home’s purchase price up to a maximum credit of \$6,500 (\$3,250 for those married filing separately).

## Limitations, Recapture and Other Details

**Income Limitations:** Both credits phase out for individuals with modified adjusted gross incomes between \$125,000 and \$145,000. The amount of the eligible credit begins to be reduced when an individual taxpayer’s income reaches \$125,000 and is reduced to zero if \$145,000 or over. The phase out range for those married filing jointly is \$225,000 and \$245,000.

**Home Purchase Price:** No credit is allowed if the purchase price of the home exceeds \$800,000.

**Age Requirement:** Taxpayer must be at least 18 years of age on the date of purchase unless legally married and the taxpayer’s spouse is at least 18 years of age on the date of purchase.

**Dependants:** No credit allowed if purchaser is (or can be) the dependant of another taxpayer.

**Purchases from related parties:** Purchases from related parties do not qualify for the credit. Related parties are defined as the individual’s spouse, ancestors and lineal descendants (parent, grandparent, children and grandchildren).

**Supporting Documentation:** Those claiming the credit must attach a signed copy of the settlement statement to their tax return. The IRS has been sending those claiming the credit requests for documentation to confirm purchase, occupancy and use of home as primary residence. It is expected that the IRS will begin conducting research to confirm that taxpayers claiming credit have not owned a primary residence during the period required to be eligible for the credit.



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## Limitations, Recapture and Other Details (Continued)

**Principal Residence:** Definition of "Principal Residence" includes mobile homes and travel trailers affixed to land. Land does not have to be owned by taxpayer. It does not include RVs. This definition applies to both qualifying purchases and tests to determine prior ownership.

**Recapture:** Entire credit must be repaid if home ceases to be principle residence within 36 months of purchase. Recapture amount may be limited to gain from sale.

**Time extended for qualified officials on extended duty:** Certain individuals on qualified extended duty service outside the United States for at least 90 days after December 31, 2008 will have until April 30, 1011 to enter into a binding contract and June 30, 2011 to close on the purchase of a principal residence.

*This sheet provides basic information regarding the First-Time Homebuyer Tax Credit. It's requirements and rules for this credit may have changed since printing. It is not intended to be used, and should not be used as a basis to make any purchase decision or to replace consultation with a qualified tax professional.*



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*Please call if you have any questions or would like assistance preparing your taxes.*



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*For qualifying taxpayers who purchase a home after November 6th, 2009*

