

First-Time Home Buyer Tax Credit Fact Sheet

Who is eligible for the tax credit?	The tax credit is for first-time home buyers only. A "first-time home buyer" is defined as a buyer who has not owned a principal residence during the three-year period prior to the purchase. For married taxpayers, both spouses must be first-time home buyers. Unmarried joint buyers may allocate the credit amount to any buyer who qualifies as a first-time buyer.		
Amount of Tax Credit and Maximum Income	Amount of Tax Credit	Single Taxpayer Income	Married Filing Jointly Income
	Max. of \$8,000 ⁽¹⁾	MAGI ⁽²⁾ ≤ \$75,000	MAGI ⁽²⁾ ≤ \$150,000
	Partial Tax Credit	MAGI ⁽²⁾ > \$75,000 < \$95,000	MAGI ⁽²⁾ > \$150,000 < \$170,000
	\$0	MAGI ⁽²⁾ ≥ \$95,000	MAGI ⁽²⁾ ≥ \$170,000
	<p>⁽¹⁾ The tax credit is equal to 10 percent of the home's purchase price up to a maximum of \$8,000 (half that amount if married filing separately). The tax credit may be claimed even if the buyer is using mortgage-revenue bond financing (a "bond loan"). A tax credit is a dollar-for-dollar reduction in what the taxpayer owes.</p> <p>⁽²⁾ MAGI means "modified adjusted gross income." This is the last number on page 1 of form 1040A or line 4 on form 1040-EZ plus certain other amounts such as foreign income, foreign-housing deductions, student-loan deductions, IRA-contribution deductions and deductions for higher-education expenses.</p>		
Repayment	The tax credit only needs to be repaid if the home ceases to be the home buyer's main home during the three years following the purchase date.		
How Long Is the Credit Available?	The credit is available for homes purchased on or after January 1, 2009 and before December 1, 2009. The purchase date is the date when closing occurs and the title to the property transfers to the home owner.		
Eligible Properties	The home must be the buyer's main/principal residence. Second homes and investment property are not eligible.		
How Do You Claim the Credit?	<p>Home buyers should complete IRS Form 5405 to determine the amount of their tax credit, and then claim this amount on Line 69 of their 1040 income tax return. No other applications or forms are required. A buyer may amend their 2008 Income Tax Return and claim the credit immediately after purchase; they do not have to wait until they file their 2009 income tax return.</p> <p>The tax credit may not be claimed prior to the purchase date. The purchase date is the date when closing occurs and the title to the property transfers to the home buyer. In the case of new construction, the purchase date the home buyer first occupies the home.</p> <p>At any time, the home buyer may use IRS Form W-4 to amend their federal income tax withholdings in anticipation of receiving the credit. This is an excellent method for accumulating funds for purchasing a home, however, it is important that the home be purchased and closed prior to December 1, 2009 otherwise they could incur a large tax liability.</p>		

First-Time Home Buyer Tax Credit

Frequently Asked Questions About the First-Time Home Buyer Tax Credit

The Housing and Economic Recovery Act of 2008 authorizes a \$7,500 tax credit for qualified first-time home buyers purchasing homes on or after April 9, 2008 and before January 1, 2009. The following questions and answers provide basic information about the tax credit. If you have more specific questions, we strongly encourage you to consult a qualified tax advisor or legal professional about your unique situation.

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. To qualify for the tax credit, a home purchase must occur on or after April 9, 2008 and before January 1, 2009. For the purposes of the tax credit, the purchase date is the date when closing occurs.
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. For married taxpayers, the law tests the homeownership history of both the home buyer and his/her spouse.

For example, if you have not owned a home in the past three years but your spouse has owned a principal residence, neither you nor your spouse qualifies for the first-time home buyer tax credit. However, unmarried joint purchasers may allocate the credit amount to any buyer who qualifies as a first-time buyer, such as may occur if a parent jointly purchases a home with a son or daughter. Ownership of a vacation home or rental property not used as a principal residence does not disqualify a buyer as a first-time home buyer.
3. Are there any income limits for claiming the tax credit?
Yes. The income limit for single taxpayers is \$75,000; the limit is \$150,000 for married taxpayers filing a joint return. The tax credit amount is reduced for buyers with a modified adjusted gross income (MAGI) of more than \$75,000 for single taxpayers and \$150,000 for married taxpayers filing a joint return. The phaseout range for the tax credit program is equal to \$20,000. That is, the tax credit amount is reduced to zero for taxpayers with a MAGI of more than \$95,000 (single) or \$170,000 (married) and is reduced proportionally for taxpayers with MAGIs between these amounts.
4. How do I claim the tax credit? Do I need to complete a form or application?
Participating in the tax credit program is easy. You claim the tax credit on your federal income tax return. No other applications or forms are required. No pre-approval is necessary; however, prospective home buyers will want to be sure they qualify for the credit under the income limits and first-time home buyer tests.
5. 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 townhouses and condominiums, manufactured homes (also known as mobile homes) and houseboats.
6. Instead of buying a new home from a home builder, I have hired a contractor to construct a home on a lot that I already own. Do I still qualify for the tax credit?
Yes. For the purposes of the home buyer tax credit, a principal residence that is constructed by the

home owner is treated by the tax code as having been "purchased" on the date the owner first occupies the house. In this situation, the date of first occupancy must be on or after April 9, 2008 and before January 1, 2009.

In contrast, for newly-constructed homes bought from a home builder, eligibility for the tax credit is determined by the settlement date.

7. What is "modified adjusted gross income"?

Modified adjusted gross income or MAGI is defined by the IRS. To find it, a taxpayer must first determine "adjusted gross income" or AGI. AGI is total income for a year minus certain deductions (known as "adjustments" or "above-the-line deductions"), but before itemized deductions from Schedule A or personal exemptions are subtracted. On Forms 1040 and 1040A, AGI is the last number on page 1 and first number on page 2 of the form. For Form 1040-EZ, AGI appears on line 4 (as of 2007). Note that AGI includes all forms of income including wages, salaries, interest income, dividends and capital gains.

To determine modified adjusted gross income (MAGI), add to AGI certain amounts such as foreign income, foreign-housing deductions, student-loan deductions, IRA-contribution deductions and deductions for higher-education costs.

8. If my modified adjusted gross income (MAGI) is above the limit, do I qualify for any tax credit?
Possibly. It depends on your income. Partial credits of less than \$7,500 are available for some taxpayers whose MAGI exceeds the phaseout limits. The credit becomes totally unavailable for individual taxpayers with a modified adjusted gross income of more than \$95,000 and for married taxpayers filing joint returns with an AGI of more than \$170,000.

9. Can you give me an example of how the partial tax credit is determined?

Just as an example, assume that a married couple has a modified adjusted gross income of \$160,000. The applicable phaseout to qualify for the tax credit is \$150,000, and the couple is \$10,000 over this amount. Dividing \$10,000 by the phaseout range of \$20,000 yields 0.5. When you subtract 0.5 from 1.0, the result is 0.5. To determine the amount of the partial first-time home buyer tax credit that is available to this couple, multiply \$7,500 by 0.5. The result is \$3,750.

Here's another example: assume that an individual home buyer has a modified adjusted gross income of \$88,000. The buyer's income exceeds \$75,000 by \$13,000. Dividing \$13,000 by the phaseout range of \$20,000 yields 0.65. When you subtract 0.65 from 1.0, the result is 0.35. Multiplying \$7,500 by 0.35 shows that the buyer is eligible for a partial tax credit of \$2,625.

Please remember that these examples are intended to provide a general idea of how the tax credit might be applied in different circumstances. You should always consult your tax advisor for information relating to your specific circumstances.

10. 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" (in effect, filing two returns), then the credit of \$7,500 is claimed as a \$3,750 credit on each of the two returns.
11. Are there any circumstances for which buyers whose incomes are at or below the \$75,000 limit for singles or the \$150,000 limit for married taxpayers might not be able to claim the full \$7,500 tax credit?
In general, the tax credit is equal to 10% of the qualified home purchase price, but the credit amount is capped or limited at \$7,500. For most first-time home buyers, this means the credit will equal \$7,500. For home buyers purchasing a home priced less than \$75,000, the credit will equal 10% of the purchase price.
12. I heard that the tax credit is refundable. What does that mean?

The fact that the credit is refundable 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.

For example, if a qualified home buyer expected, notwithstanding the tax credit, federal income tax liability of \$5,000 and had tax withholding of \$4,000 for the year, then without the tax credit the taxpayer would owe the IRS \$1,000 on April 15th. Suppose now that taxpayer qualified for the \$7,500 home buyer tax credit. As a result, the taxpayer would receive a check for \$6,500 (\$7,500 minus the \$1,000 owed).

13. 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 \$7,500 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.

14. Can I claim the tax credit if I finance the purchase of my home under a mortgage revenue bond (MRB) program?
No. The tax credit cannot be combined with the MRB home buyer program.

15. I live in the District of Columbia. Can I claim both the DC first-time home buyer credit and this new credit?
No. You can claim only one.

16. I am not a U.S. citizen. Can I claim the tax credit?

Maybe. Anyone who is not a nonresident alien (as defined by the IRS), who has not owned a principal residence in the previous three years and who meets the income limits test may claim the tax credit for a qualified home purchase. The IRS provides a definition of "nonresident alien" in IRS Publication 519.

17. 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 they sell the house, if there is sufficient capital gain from the sale. For example, a home buyer claiming a \$7,500 credit would repay the credit at \$500 per year. The home owner does not have to begin making repayments on the credit until two years after the credit is claimed. So if the tax credit is claimed on the 2008 tax return, a \$500 payment is not due until the 2010 tax return is filed. If the home owner sold the home, then the remaining credit amount would be due from the profit on the home sale. If there was insufficient profit, then the remaining credit payback would be forgiven.

18. Why must the money be repaid?

Congress's intent was to provide as large a financial resource as possible for home buyers in the year that they purchase a home. In addition to helping first-time home buyers, this will maximize the stimulus for the housing market and the economy, will help stabilize home prices, and will increase home sales. The repayment requirement reduces the effect on the Federal Treasury and assumes that home buyers will benefit from stabilized and, eventually, increasing future housing prices.

19. Because the money must be repaid, isn't the first-time home buyer program really a zero-interest loan rather than a traditional tax credit?

Yes. Because the tax credit must be repaid, it operates like a zero-interest loan. Assuming an interest rate of 7%, that means the home owner saves up to \$4,200 in interest payments over the 15-year repayment period. Compared to \$7,500 financed through a 30-year mortgage with a 7% interest rate, the home buyer tax credit saves home buyers over \$8,100 in interest payments. The program is called a tax credit because it operates through the tax code and is administered by the IRS. Also like a tax credit, it provides a reduction in tax liability in the year it is claimed.

NAHB is providing the information on this web site for general guidance only. The information on this site does not constitute the provision of legal advice, tax advice, accounting services, investment advice, or professional consulting of any kind nor should it be construed as such. The information provided herein should not be used as a substitute for consultation with professional tax, accounting, legal, or other competent advisers. Before making any decision or taking any action on this information, you should consult a qualified professional adviser to whom you have provided all of the facts applicable to your particular situation or question. None of the tax information on this web site is intended to be used nor can it be used by any taxpayer, for the purpose of avoiding penalties that may be imposed on the taxpayer. The information is provided "as is," with no assurance or guarantee of completeness, accuracy, or timeliness of the information, and without warranty of any kind, express or implied, including but not limited to warranties of performance, merchantability, and fitness for a particular purpose.



1201 15th Street, NW
Washington, DC 20005
202-266-8200
800-368-5242

Copyright © 2008 National Association of Home Builders. All rights reserved.

First-Time Homebuyer Credit

► Attach to Form 1040

OMB No. 1545-0074

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 December 1, 2009, check here (see instructions)

Part II Credit

1 Enter the **smaller** of:

- \$7,500 (\$8,000 if you purchased your home in 2009), but only half of that amount if married filing separately, **or**
- 10% of the purchase price of the home.

If someone other than a spouse also held an interest in the home, enter only your share of this amount (see instructions)

2 Enter your modified adjusted gross income (see instructions)

3 Is line 2 more than \$75,000 (\$150,000 if married filing jointly)?

No. Skip lines 3 through 5 and enter the amount from line 1 on line 6.

Yes. Subtract \$75,000 (\$150,000 if married filing jointly) from the amount on line 2 and enter the result

4 Divide line 3 by \$20,000 and enter the result as a decimal (rounded to at least three places).

Do not enter more than 1.000

5 Multiply line 1 by line 4

6 Subtract line 5 from line 1. This is your **credit**. Enter here and on Form 1040, line 69

1			
2			
3			
4		X	
5			
6			

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.

For homes purchased in 2008, the credit operates much like an interest-free loan. You generally must repay it over a 15-year period. For homes purchased in 2009, you must repay the credit only if the home ceases to be your main home within the 36-month period beginning on the purchase date. 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 are considered a first-time homebuyer if:

- You purchased your main home located in the United States after April 8, 2008, and before December 1, 2009.
- You (and your spouse if married) 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. This rule does not apply for a home purchased in 2009.
3. Your home financing comes from tax-exempt mortgage revenue bonds. This rule does not apply for a home purchased in 2009.
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 (\$8,000 if you purchased your home in 2009), but only half of that amount 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

Homes purchased in 2008. You generally must repay the credit over a 15-year period in 15 equal installments. 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, you convert it to business or rental property, or the home is destroyed, condemned, or disposed of under threat of condemnation.

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.

Homes purchased in 2009. You must repay the credit only if the home ceases to be your main home within the 36-month period beginning on the purchase date. This includes situations where you sell the home, you convert it to business or rental property, or the home is destroyed, condemned, or disposed of under threat of condemnation. You repay the credit by including it as additional tax on the return for the year the home ceases to be your main home. If the home continues to be your main home for at least 36 months beginning on the purchase date, you do not have to repay any of the credit.

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.

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.
- 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 do not have to repay the credit.
- 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 repaying the credit.
- If you die, repayment of the credit is not required. If you filed a joint return and then you die, your surviving spouse would be required to repay his or her half of the credit.

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 December 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 (\$8,000 if you purchased your home in 2009) or 10% of the purchase price. See *Purchase price* on page 3.

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.