

Homebuyer Tax Credit Changes

Frequently Asked Questions



Here are some of the most frequently asked questions on the changes to the Homebuyer Tax Credit.

? I thought the tax credit was for first-time homebuyers only. Isn't this just an extension of the original tax credit?

Yes and no. While the original \$8,000 tax credit for first-time homebuyers has been extended to April 30, 2010, Congress has also expanded the homebuyer tax credit to include existing homeowners. Homeowners who have used the home sold or being sold as a principal residence consecutively for 5 of the previous 8 years are eligible for a \$6,500 tax credit. In addition, the income limits have been increased to \$125,000 for single individuals and \$225,000 for married couples.

? Existing homeowner credit: Must the new house cost more than the old house?

No. Thus, for example, individuals who move from a high cost area to a lower cost area who meet all eligibility requirements will qualify for the \$6,500 credit.

? I am an existing homeowner. On October 25, 2009, I signed a contract to purchase a new home. I have lived in my current home for more than 5 consecutive years and am within the new income limits. I will go to settlement on November 20. Since the extension was signed by President Obama on Nov. 6, will I qualify for the new \$6,500 tax credit?

Yes. The existing homeowner credit goes into effect for purchases after the date of enactment (when the bill is signed). There is no reference to the date of contract for the new credit. The provision looks solely to the date of purchase, which is generally the date of settlement.

? I owned my home for 10 years, but sold it two years ago year and have been renting since. If I purchase a home, will I be eligible for the \$6,500 tax credit if I meet all the other eligibility tests?

Yes. Because you lived in the home for more than 5 consecutive years of the previous 8, you will qualify for the \$6,500 credit. The keyword here is "consecutive."

? I am an eligible existing homeowner. I have a fair amount of equity in my home. I have found a home with a non-negotiable price of \$825,000. Will I be able to use any of the \$6,500 tax credit?

No. The \$800,000 cap on the cost of the purchased home is firm at \$800,000. Any amount above \$800,000 makes the home ineligible for any portion of the credit. The \$800,000 is an absolute ceiling.

? I am an eligible first-time homebuyer. I entered into a contract to purchase on November 1, 2009. Do I have to go to closing before December 1? How does the extension date affect me?

You do not have to close before December 1. Once the legislation was signed, it is as if the Nov. 30 date had never existed. Therefore, as long as the contract settles on or before April 30 (or June 30, worst case), the purchaser will be eligible for the credit.

? I am a first-time homebuyer but was not within the prior income limits at the time I entered into my contract to purchase on October 30, 2009. I will be covered, however, by the new income limits. If the new rules have been signed into law by the time I go to settlement, will I be eligible for a credit?

Yes. The new income limitations went into effect as soon as the President signed the bill. The income limit and other eligibility rules will look to your status as of the date of purchase, which is the settlement date.

SOURCE: National Association of REALTORS®, www.wra.org/nartaxcreditfaq

Issue Brief

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Congress has extended and expanded the homebuyer tax credit. The modifications in the column labeled “November 7 – April 30, 2010” become effective when President Obama signs the bill. All changes made to the current credit become effective on that date, as well.

Feature	Jan 1 - Nov 30, 2009 Rules as enacted Feb 2009	Nov. 7 - April 30, 2010 Rules as enacted Nov 2009
First-time Buyer - Amount of Credit	\$8,000 (\$4,000 married filing separate)	\$8,000 (\$4,000 married filing separate)
First-time Buyer - Definition for Eligibility	May not have had an interest in a principal residence for 3 years prior to purchase.	Same
Current Homeowner - Amount of Cred	No Provision	\$6,500 (\$3,250 married filing separate)
Effective Date - Current Owner	No Provision	Nov. 7, 2009
Current Homeowner - Definition for Eligibility	No Provision	Must have used the home sold or being sold as a principal residence consecutively for 5 of the previous 8 years.
Termination of Credit	Purchases after November 30, 2009. (Becomes April 30, 2010 on Date of Enactment.)	Purchases after April 30, 2010
Binding Contract Rule	None	So long as a written binding contract to purchase is in effect on April 30, 2010, the purchaser will have until June 30, 2010 to close.
Income Limits <i>(Note: Increased income limits are effective as of date of enactment of bill)</i>	\$75,000 – single \$150,000 – married Additional \$20,000 phase out	\$125,000 – single \$225,000 – married Additional \$20,000 phase out
Limitation on Cost of Purchased Home	None	\$800,000 Effective Nov. 7, 2009
Purchase by a Dependent	No Provision	Ineligible Nov. 7, 2009
Anti-fraud Rule	None	Purchaser must attach documentation of purchase to tax return.

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