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John Varella - Repayment of First-Time Homebuyer Credit

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Taxpayers who claimed the first-time homebuyer credit for a home bought in 2008 must generally begin repaying it on their 2010 federal tax return. In addition, taxpayers who claimed the credit on their 2008 or 2009 return and then sold the home are required to begin repaying. If the taxpayer has filed his 2010 return and failed to make a required credit repayment, then he should amend his return and make such payment.

For the tax year 2010 and every year until the credit is repaid (generally, a 15-year period), the IRS will send the homebuyer a Notice CPO3a, which will list the amount of the credit the taxpayer received and the amount the taxpayer has to repay in the specific taxable year. The repayment amount is added to any other tax that the taxpayer owes, generating either additional tax or a reduced refund. The failure to receive Notice CPO3a will not relieve the taxpayer from his repayment obligation.

In order to repay the credit, the taxpayer must attach a completed Form 5405 to his federal tax return. If the taxpayer bought a home in 2008 and claimed the maximum credit of \$7,500, the repayment amount is \$500 per year. However, if the taxpayer stops using the home as his main home, the taxpayer generally must repay the entire remaining amount of the credit for the year the home is no longer his main home. There are some exceptions to this rule.

If the taxpayer sells the home for which he claimed the credit, he must report the sale or other disposition of his home on a completed Form 5405 and attach it to his tax return for the year of the sale or other disposition. The IRS matches information from a variety of sources when a home is sold, destroyed, foreclosed on, or is no longer the taxpayer's main home. If the IRS has information that the home is no longer the taxpayer's main home, the IRS checks the taxpayer's tax records to find out if the taxpayer reported the sale or other disposition on the Form 5405.

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