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First time homebuyer

August 20, 2008 - Front Section

On July 30th, the President signed the Housing and Economic Recovery Act of 2008. The main intent of the bill is to provide relief to the real estate industry. However, lawmakers have added tax cuts to the bill, which will assist current and future homeowners who are not currently facing foreclosure issues. This article discusses the first time homebuyer credit.

A first time homebuyer is defined as a U.S. resident individual who has not owned a home in the U.S. in the previous three years. These individuals are entitled to claim a \$7,500 credit on their 2008 or 2009 individual income tax return, if they purchased a principal residence between April 8th and July 1st, 2009. This credit begins to phase out for single taxpayers at \$75,000 (up to \$95,000) of adjusted gross income, and \$150,000 (up to \$170,000) for married taxpayers. Unmarried taxpayers also qualify for the \$7,500 credit, which is allocated between them. This credit may be claimed in 2008 (for residences purchased in 2009) through the filing of an extended or amended 2008 tax return. This tax credit however has strings attached.

The credit is viewed by the IRS as an interest free loan with a 15 year payback period, commencing two years after claiming the credit. The method of repayment is through a \$500 surcharge, which is added to the taxpayer's tax liability reflected on his Form 1040 for the next 15 years. If the residence is sold or is no longer the principal residence, the unpaid balance of the loan is due. The amount due at that time cannot be greater than the gain (not the taxable gain) on the sale of the house. Special rules apply to involuntary conversions, divorce and death of the taxpayer.

Norman Posner, CPA is managing partner, Samet & Co., Chestnut Hill, Mass. Ron Mutascio, CPA, MST, also with Samet, contributed to this article.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540