



The homeownership tax credit that the federal government enhanced earlier this year should be the perfect motivation to jump off the fence and get into the home buying market.

When you combine the tax credit with today's continuing low interest rates, large selection of for-sale inventory, and low home prices, many of the pieces are in place that make this an ideal time to make your housing dream a reality!

In short...a non-repayable \$8,000 tax credit is available to any first-time homebuyer purchasing between Jan. 1, 2009 and Dec. 1, 2009.

The following information provides you with answers to some frequently asked questions about the tax credit.

Benefits of Ownership

Owning a home is the American Dream. It not only provides amazing tax benefits but it also provides shelter and securities to families. Did you know that:

- Dollar for dollar, the rate of return on an individual's cash down payment on a home is substantial? And that repeat buyers are able to put 19 percent more down on a new home due to appreciation?
- Homeowners move less often and are more likely to vote and volunteer time for political and charitable causes than renters?
- When you own a home you can deduct the property taxes and mortgage interest from your income taxes?
- The gains that you make on a primary residence that you've occupied for two years out of five can be tax free?

Ownership is an Investment in Your Future

A Federal Reserve study has shown that the average homeowner's net worth is 46 times the net worth of the average renter. The average homeowners' net worth is \$184,000 compared to \$4,000 for renters.

The Value of Your Investment

Despite some contrary media reports and some losses in value in the short-term, home values long-term have and will continue to rise. Real estate is a long-term investment. Over the past 30 years, the median price of existing homes has increased an average more than 6 percent every year according to the National Association of REALTORS®.

Unlock the "Dream"



A guide to understanding the 2009 first-time homebuyer tax credit



www.ohiorealtors.org



Tax Credits - The Basics

What's this new homebuyer tax incentive for 2009?

The 2008 \$7,500, repayable credit has been increased to \$8,000 and the repayment feature is eliminated for 2009 purchases. Any home that is purchased for \$80,000 or more qualifies for the full \$8,000 amount. If the house costs less than \$80,000, the credit will be 10% of the cost. Thus, if you purchase a home for \$75,000, the credit would be \$7,500. It is available for the purchase of a principal residence on or after Jan. 1, 2009 and before Dec. 1, 2009.

Who is eligible?

Only first-time homebuyers are eligible. A person is considered a first-time buyer if he/she has not had any ownership interest in a home in the three years previous to the day of the 2009 purchase.

How does the tax credit work?

Every dollar of the tax credit reduces income taxes by a dollar. Credits are claimed on an individual's income tax return. Thus, a qualified purchaser would figure out all the income items and exemptions and make all the calculations required to figure out his/her total tax due. Then, once the total tax owed has been computed, tax credits are applied to reduce the total tax bill. So, if before taking any credits on a tax return a person has total tax liability of \$9,500, an \$8,000 credit would wipe out all but \$1,500 of tax due.

So what happens if the purchaser is eligible for an \$8,000 credit but their entire income tax liability for the year is only \$6,000?

The tax credit is what's called "refundable" credit. Thus, if the eligible purchaser's total tax liability was \$6,000, the IRS would send the purchaser a check for \$2,000. The refundable amount is the difference between \$8,000 credit amount and the amount of tax liability. Most taxpayers determine their tax liability by referring to the tables that the IRS prepares each year.

Is there an income restriction?

Yes. The income restriction is based on the tax filing status the purchaser claims when filing his/her income tax return. Individuals filing Form 1040 as Single (or Head of Household) are eligible for the credit if their

income is no more than \$75,000. Married couples who file a Joint return may have income of no more than \$150,000.

Do individuals with incomes higher than the \$75,000/\$150,000 limits lose the benefit?

Not always. The credit phases-out between \$75,000-\$95,000 for Singles and \$150,000-\$170,000 for married filing Joint. The closer a buyer comes to the maximum phase-out amount, the smaller the credit will be. The law provides a formula to gradually withdraw the credit.

What's the definition of "principal residence?"

Generally, a principal residence is the home where an individual spends most of his/her time (generally defined as 50%). It is also defined as owner-occupied housing. The term includes single-family detached housings, condos or co-ops, townhouse or any similar type of new or existing dwelling. Even some house-boats or manufactured homes will count.

Do I have to repay the 2009 tax credit?

NO! There is no repayment for 2009 tax credits.

Some Practical Questions

How do I apply for the credit?

There is no pre-purchase authorization, application or similar approval process. All eligible purchasers simply claim the credit on their IRS Form 1040 tax return. The credit will be reflected on a new Form 5405 that will be attached to the 1040. Form 5405 can be found at www.irs.gov

So I can't use the credit amount as part of my downpayment?

No. Congress tried hard to devise a mechanism that would make the funds available for closing costs, but found that pre-funding would require cumbersome processes that would, in effect, bring the IRS into the purchase and settlement phase of the process.

So there's no way to get any cash flow benefits before I file my tax return?

Yes, there is. Any first-time homebuyers who believe they are eligible for all or part of the credit can modify

their income tax withholding (through their employers) or adjust their quarterly estimated tax payments.

Some "Real World" Examples

What if I purchase later this year but can't get to settlement before December 1?

The credit is available for purchases before Dec. 1, 2009. A home is considered as "purchased" when all events have occurred that transfer the title from the seller to the new purchaser. Thus, closings must occur prior to Dec. 1 to be eligible for the credit.

I haven't even filed my 2008 tax return yet. If I buy in 2009, do I have to wait until next year to get the benefit of the credit?

You'll have a helpful choice that might speed up the process. Eligible homebuyers who make their purchase between Jan. 1 and Dec. 1, 2009 can treat the purchase as if it had occurred on Dec. 31, 2008. Thus, they can claim the credit on their 2008 tax return that is due on April 15, 2009. You have three options:

1. If you buy between Jan. 1 and April 15, you can claim the credit on the 2008 return due April 15.
2. You can extend the 2008 income-tax filing as late as Oct. 15, 2009. IRS automatically grants extensions, but you must file.
3. If you've filed your 2008 return before the purchase of a home, you can file an amended 2008 tax return on Form 1040X.

Of course, 2009 purchasers will always have the option of claiming the credit for the 2009 purchase on their 2009 return (due April 15, 2010).

I know there is no repayment requirement for the \$8,000 credit. Will I ever have to repay any of the credit back to the government?

One situation does require a recapture payment back to the government. If you claim the credit but then sell the property within 3 years of the date of purchase, you are required to pay back the full amount of any credit, including any refund you received from it. A few exceptions apply.

Source: National Association of REALTORS®