

FIRST-TIME HOMEBUYERS MAY QUALIFY FOR NEW TAX CREDIT

AN UPDATE ON THE AMERICAN ECONOMIC RECOVERY AND REINVESTMENT ACT OF 2009



In an effort to stimulate real estate sales, Congress has extended and enhanced the first-time homebuyer tax credit in the American Economic Recovery and Reinvestment Act of 2009 passed into law on February 17, 2009. This credit changes and extends the previous program that was introduced in 2008.

DETAILS OF THE TAX CREDIT:

- The tax credit is equal to 10-percent of the home's purchase price, up to a maximum of \$8,000 on a primary residence.
- The credit is available for homes purchased on or after January 1, 2009 and before December 1, 2009.
- No repayment is required, provided the home is retained for at least three years. (The law defines "first-time homebuyer" 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 homebuyer and his/her spouse.)
- 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. For taxpayers with MAGI of more than \$95,000 (single) or \$170,000 (married), the tax credit amount is reduced to zero. The tax credit is reduced proportionally for taxpayers with MAGIs between these amounts.
- The 2009 tax incentive is a true tax credit as it does not have to be repaid. The credit that Congress enacted in July 2008 was essentially an interest-free loan because repayment was required.
- Participating in the tax credit program is easy. The tax credit is claimed on your federal income tax return. Specifically, homebuyers should complete IRS Form 5405 to determine their tax credit amount, and then claim this amount on Line 69 of their 1040 income tax return.

This new tax credit will be of particular interest to corporations that consider the impact of taxable relocation benefits for their transferring employees. If a company's current relocation program looks at the recapture of credit phaseouts during the true-up process, we recommend reviewing the treatment of this new first-time homebuyer credit with your tax partner to determine if any policy changes are warranted.