

Homebuyer Tax Credit

Buy a home and you get a tax break! As part of the Housing and Economic Recovery Act of 2008, a First-time Homebuyer Tax Credit is now available. But this special tax break ends in mid-2009. A homebuyer tax credit has been available for first-time homebuyers in Washington, D.C. for many years, and now first-time homebuyers nationwide can take advantage of a similar benefit. In this brochure we'll discuss some of the provisions of the credit and explain how to use it.

Am I Eligible?

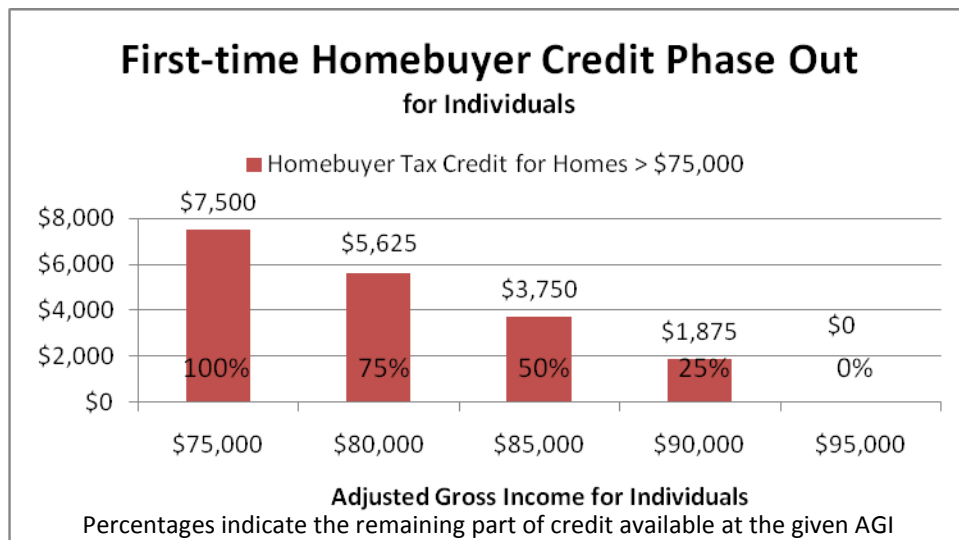
First-time homebuyers who purchase a principle residence on April 9, 2008 and before July 1, 2009 are eligible. If you (and your spouse, if married) have not owned your principle residence for a 3-year period before your purchase, and you have never taken advantage of the DC first-time homebuyer credit, you qualify as a first-time homebuyer.

How does it work?

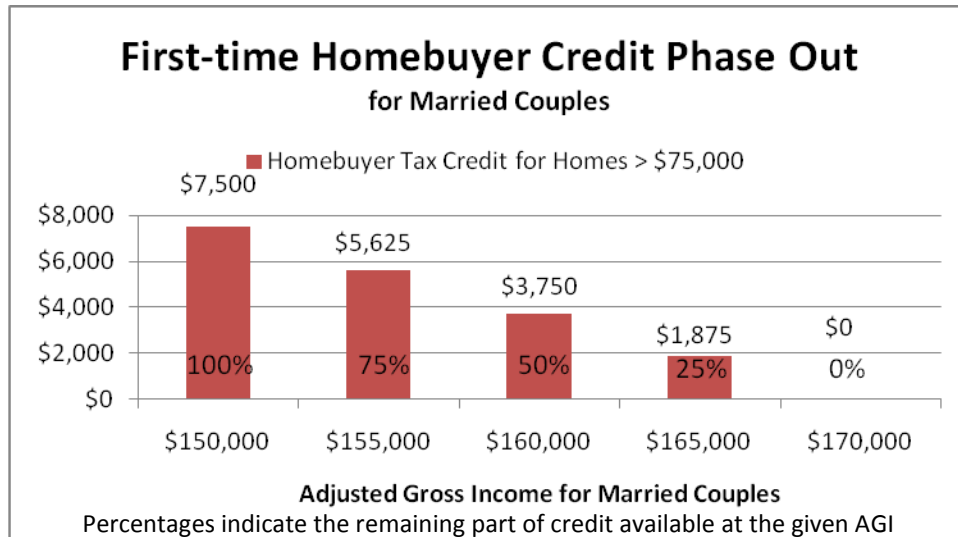
Like all tax credits, it will directly reduce the total amount of taxes you owe. When you file your taxes, for the year you purchased your home (2008 or 2009), you will be able to subtract the amount of the credit from your Federal income tax liability, increasing the size of your refund or reducing the amount you owe. For example, you file your 'normal' tax return and find that you owe \$2,000 in taxes. With this credit, your tax liability could be lowered by \$7,500—which means, you instead get a \$5,500 tax REFUND check from the IRS.

How big is the tax credit?

The tax credit is equal to 10% of the purchase price of your home up to \$7,500. The full credit is available for single individuals whose adjusted gross income is less than \$75,000. If your adjusted gross income is greater than \$75,000 and your home purchase qualifies you for the full credit, the credit phases out according to the dollar amount (or percentage if less than \$7,500) in the chart below.



For married couples filing jointly, the credit begins to phase out at an adjusted gross income of \$150,000. The dollar amounts in the chart below correspond to a phase out of the full tax credit (percentages are for credits less than \$7,500).



What about Repayment?

The tax credit is not completely free money for you to keep. It has a payback provision that makes it similar to an interest free loan. Two years after the credit is claimed, you must begin repayment so that you will have paid the credit back in full over the course of 15 years. For those qualifying for the full credit, the payback amount is \$500 per year. For those getting less than the full credit, you pay equally over the 15 years (which is a rate of 6.67% per year). If a qualifying home is resold before the credit is repaid, the seller will have to immediately pay the outstanding balance of the credit. If the home is sold at a loss, then you owe nothing back.

What's valuable about a credit you have to repay?

Money today is worth more than an equal amount of money in future, which economists call the time-value of money. First, money loses its purchasing power over time due to inflation. Second, you can use the money today to earn interest and repay the principal later—all the while keeping the interest for yourself. For this reason, multimillion-dollar lottery winners prefer taking a lower lump-sum amount than the multimillion dollar amount spread out over many years.

Let's see some more numbers

Example 1: You buy a \$200,000 home and get the full \$7,500 tax credit. You hold onto the home for six years and sell it for \$250,000¹. From 2010, you repay \$500 each year and then repay the remaining total

¹ That's equivalent to price growth of 3.8 percent per year in that time period—somewhat below the historic average.

balance of \$5,500 in 2014. Applying a reasonable discount rate on money², the chart below shows that you benefited \$2,122 from buying a home in 2008 even after the full repayment of the tax credit.

House held for 6 years; credit repaid in full		
Repayments	Nominal Value	Value in 2008 dollars
2010	\$ 500	\$ 441
2011	\$ 500	\$ 414
2012	\$ 500	\$ 389
2013	\$ 500	\$ 365
2014	\$ 5,500	\$ 3,769
Total	\$ 7,500	\$ 5,378
Tax Benefit after Full Repayment		\$ 2,122

Example 2: You buy a \$200,000 home and get the full \$7,500 tax credit. You hold onto the home for more than 17 years. In this case, you pay back \$500 each year for 15 years. In this case you benefited \$3,086 from buying a home in 2008.

House held for 17 years; credit repaid in full		
Repayments	Nominal Value	Value in 2008 dollars
2010	\$ 500	\$ 441
2011	\$ 500	\$ 414
2012	\$ 500	\$ 389
2013	\$ 500	\$ 365
2014	\$ 500	\$ 343
2015	\$ 500	\$ 322
2016	\$ 500	\$ 302
2017	\$ 500	\$ 284
2018	\$ 500	\$ 266
2019	\$ 500	\$ 250
2020	\$ 500	\$ 235
2021	\$ 500	\$ 221
2022	\$ 500	\$ 207
2023	\$ 500	\$ 194
2024	\$ 500	\$ 183
Total	\$ 7,500	\$ 4,414
Tax Benefit after Full Repayment		\$ 3,086

² A discount rate of 6.5% was used for these examples.

Example 3: You buy a \$200,000 home and get the full \$7,500 tax credit. You hold onto the home for two years and sell it for \$190,000. In most cases, you do not have to repay the \$7,500. The enacted law insulates buyers from some of the risk of falling home prices.

Are there other conditions I should know about?

- You cannot claim both the DC and the national First-time Homebuyer tax credit.
- Purchases by non-resident aliens and purchases financed by proceeds from a qualified mortgage issue are not eligible.
- Any single family residence located in the United States that will be used as a principal residence is eligible. Generally, this is the place where an individual spends most of his/her time. This includes single-family detached housing, condos or coops, townhouses or any similar type of new or existing dwelling.
- The credit will not result in an individual owing additional federal taxes under the Alternative Minimum Tax.
- Home purchases between relatives and other gifts of residences are not eligible for the credit.
- Other tax benefits of homeownership are still in place. Mortgage interest deduction, capital gains tax exclusion, and property tax deduction are some well-known examples.

For more specific questions about the tax implications of the credit, please consult a tax professional.

Buying a first home is a big step!

Buying a first home is a big step. Fortunately, trained professionals like your Realtor® are willing and able to help you through the process. In addition to the many benefits of homeownership, the homebuyer tax credit and more affordable prices make now an especially opportune time to purchase. Still, the commitment is a substantial one, and the National Association of Realtors® encourages you to ask questions and be informed about the decision you are making so that the home you buy is a home you can enjoy for years to come.

Other Resources for First-time Homebuyers:

http://www.realtor.org/home_buyers_and_sellers/preparing_for_homeownership

<http://finance.realtor.com/homefinance/guides/buyers/>

<http://www.hud.gov/buying/>

http://www.freddiemac.com/corporate/buying_and_owning.html