

Tax News

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Homebuyer Tax Credit Still Available

The federal income-tax credit available to individuals who buy their “first” principal residence was a significant part of the package intended to “kick start” the economy in 2009. The credit was scheduled to expire after November 30, 2009, but due to the Worker, Homeownership, and Business Assistance Act of 2009 (“Act”), the credit is now available for qualifying home purchases made before May 1, 2010.

Buyers who enter into a written, binding contract before May 1, 2010, and who close on the purchase before July 1, 2010, may also qualify for a credit. And, importantly, certain long-time homeowners may now qualify under the Act for a homebuyer tax credit.

First-Time Homebuyers

The maximum credit for a first-time homebuyer is \$8,000 (\$4,000, if married filing separately) or 10% of the home’s purchase price, if less. Buyers meet the definition of a first-time homebuyer if they haven’t owned a principal residence in the U.S. for the three-year period immediately before the purchase date.

Long-Time Owners

Buyers who do not qualify as traditional first-time homebuyers may nonetheless be eligible for a smaller credit of up to \$6,500 (\$3,250 if married filing separately) or 10% of the home’s purchase price, if less. This smaller credit is available only for purchases after November 6, 2009. To qualify for the credit, a buyer must have owned and resided in the same principal residence for any five-consecutive-year period during the eight years before the new home’s purchase date.

Income Phaseout Limits

The credit is phased out once income reaches certain levels. The Act increases these income thresholds in comparison to prior law limits. The phaseout occurs when modified adjusted gross income is between \$125,000 and \$145,000 (between \$225,000 and \$245,000 for joint return filers).

Home Price Cap

No credit is available for a home purchase made after November 6, 2009, if the purchase price is more than \$800,000.

Tax Credit May Be Applied to 2009

A taxpayer who qualifies as either a traditional first-time homebuyer, or under the expanded definition as it relates to long-time owners, may claim the homebuyer credit on a 2009 federal income-tax return – even if the purchase is in 2010 – rather than waiting to apply the credit to a 2010 tax return. The IRS has revised Form 5405, First-Time Homebuyer Credit, to reflect the law change.



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