

Tax Incentives Information

from the Internal Revenue Service

Provided by



Expanded Tax Break Available for 2009 First-Time Homebuyers

WASHINGTON — The Internal Revenue Service announced today that taxpayers who qualify for the first-time homebuyer credit and purchase a home this year before Dec. 1 have a special option available for claiming the tax credit either on their 2008 tax returns due April 15 or on their 2009 tax returns next year.

Qualifying taxpayers who buy a home this year before Dec. 1 can get up to \$8,000, or \$4,000 for married filing separately.

“For first-time homebuyers this year, this special feature can put money in their pockets right now rather than waiting another year to claim the tax credit,” said IRS Commissioner Doug Shulman. “This important change gives qualifying homebuyers cash they do not have to pay back.”

The IRS has posted a revised version of Form 5405, First-Time Homebuyer Credit, on IRS.gov. The revised form incorporates provisions from the American Recovery and Reinvestment Act of 2009. The instructions to the revised Form 5405 provide additional information on who can and cannot claim the credit, income limitations and repayment of the credit.

This year, qualifying taxpayers who buy a home before Dec. 1, 2009, can claim the credit on either their 2008 or 2009 tax returns. They do not have to repay the credit, provided the home remains their main home for 36 months after the purchase date. They can claim 10 percent of the purchase price up to \$8,000, or \$4,000 for married individuals filing separately.

The amount of the credit begins to phase out for taxpayers whose adjusted gross income is more than \$75,000, or \$150,000 for joint filers.

For purposes of the credit, you are considered to be a first-time homebuyer if you, and your spouse if you are married, did not own any other main home during the three-year period ending on the date of purchase.

The IRS also alerted taxpayers that the new law does not affect people who purchased a home after April 8, 2008, and on or before Dec. 31, 2008. For these taxpayers who are claiming the credit on their 2008 tax returns, the maximum credit remains 10 percent of the purchase price, up to \$7,500, or \$3,750 for married individuals filing separately. In addition, the credit for these 2008 purchases must be repaid in 15 equal installments over 15 years, beginning with the 2010 tax year.

First-Time Homebuyers Have Several Options to Maximize New Tax Credit

WASHINGTON — As part of the Treasury Department's consumer outreach effort and with the April 15 individual tax filing deadline approaching, the Internal Revenue Service today began a concerted effort to educate taxpayers about additional options at their disposal to claim the new \$8,000 first-time homebuyer credit for 2009 home purchases. For people who recently purchased a home or are considering buying in the next few months, there are several different ways that they can get this tax credit even if they've already filed their tax return.

The Treasury Department encourages taxpayers to explore these options to maximize their credit and get their money back as fast as possible.

"The new credit can get money in the pockets of first-time homebuyers quickly," said IRS Commissioner Doug Shulman. "For people who recently purchased a home or are considering buying in the next few months, there are several different ways that they can get this tax credit even if they've already filed their tax return."

First-time homebuyers represent a significant portion of existing single-family home sales. The expansion in the first-time homebuyer credit will make it easier for first-time homebuyers to enter the housing market this year.

Under the American Recovery and Reinvestment Act of 2009, qualifying taxpayers who purchase a home before Dec. 1 receive up to \$8,000, or \$4,000 for married individuals filing separately. People can claim the credit either on their 2008 tax returns due April 15 or on their 2009 tax returns next year.

The filing options to consider are:

- **File an extension** — Taxpayers who haven't yet filed their 2008 returns but are buying a home soon can request a six-month extension to October 15. This step would be faster than waiting until next year to claim it on the 2009 tax return. Even with an extension, taxpayers could still file electronically, receiving their refund in as few as 10 days with direct deposit.
- **File now, amend later** — Taxpayers due a sizable refund for their 2008 tax return but who also are considering buying a house in the next few months can file their return now and claim the credit later. Taxpayers would file their 2008 tax forms as usual, then follow up with an amended return later this year to claim the homebuyer credit.
- **Amend the 2008 tax return** — Taxpayers buying a home in the near future who have already filed their 2008 tax return can consider filing an amended tax return. The amended tax return will allow them to claim the homebuyer credit on the 2008 return without waiting until next year to claim it on the 2009 return.
- **Claim the credit in 2009 rather than 2008** — For some taxpayers, it may make more financial sense to wait and claim the homebuyer credit next year when they file the 2009 tax return rather than claiming it now on the 2008 tax return. This could benefit taxpayers who might qualify for a higher credit on the 2009 tax return. This could include people who have less income in 2009 than 2008 because of factors such as a job loss or drop in investment income.

The IRS reminds taxpayers the amount of the credit begins to phase out for taxpayers whose modified adjusted gross income is more than \$75,000, or \$150,000 for joint filers. Taxpayers can claim 10 percent of the purchase price up to \$8,000, or \$4,000 for married individuals filing separately.

IRS.gov provides more information, including guidance for people who bought their first homes in 2008. To learn more about the overall implementation of the Recovery Act, visit www.Recovery.gov.

First-Time Homebuyer credit

First-time homebuyers should begin planning now to take advantage of a new tax credit. Available for a limited time, the credit:

- Applies to home purchases after April 8, 2008, and before July 1, 2009.
- Reduces a taxpayer's tax bill or increases his or her refund, dollar for dollar.
- Is fully refundable, meaning that the credit will be paid out to eligible taxpayers, even if they owe no tax or the credit is more than the tax that they owe.

The credit operates much like an interest-free loan because it must be repaid in equal installments over a 15-year period. Taxpayers will claim the credit on new IRS Form 5405, First-Time Homebuyer Credit.

Only the purchase of a main home located in the United States qualifies. Vacation homes and rental property are not eligible. For a home that you construct, the purchase date is the first date you occupy the home.

Taxpayers who owned a main home at any time during the three years prior to the date of purchase are not eligible for the credit. This means that first-time homebuyers and those who have not owned a home in the three years prior to a purchase can qualify for the credit.

If you make an eligible purchase in 2008, you claim the first-time homebuyer credit on your 2008 tax return. If you make an eligible purchase in 2009, you can choose to claim the credit on either your original or amended 2008 return, or on your 2009 return.

The credit is 10 percent of the purchase price of the home, with a maximum available credit of \$7,500 for either a single taxpayer or a married couple filing jointly. The limit is \$3,750 for a married person filing a separate return. In most cases, the maximum credit will be available for homes costing \$75,000 or more. The credit normally must be repaid over a 15-year period starting the second year after the year the credit is claimed.

The credit is reduced or eliminated for higher-income taxpayers. The credit is phased out based on your modified adjusted gross income. In general, for a married couple filing a joint return the phase-out begins at \$150,000 and is completely phased out at \$170,000. For other taxpayers, the phase-out range is between \$75,000 and \$95,000.

Not everyone will qualify for the credit. There are other rules that may impact your eligibility and decision to claim the First-Time Homebuyer Credit. Get all the information at IRS.gov.

First-Time Homebuyer Credit

► Attach to Form 1040

Name(s) shown on return

Your social security number

Part I General Information

A Address of home qualifying for the credit (if different from the address shown on return)

B Date acquired (see instructions)

C If you are choosing to claim the credit on your 2008 return for a main home bought after December 31, 2008, and before December 1, 2009, check here (see instructions)

Part II Credit

1 Enter the **smaller** of:

- \$7,500 (\$8,000 if you purchased your home in 2009), but only half of that amount if married filing separately, **or**
- 10% of the purchase price of the home.

If someone other than a spouse also held an interest in the home, enter only your share of this amount (see instructions)

2 Enter your modified adjusted gross income (see instructions)

3 Is line 2 more than \$75,000 (\$150,000 if married filing jointly)?

No. Skip lines 3 through 5 and enter the amount from line 1 on line 6.

Yes. Subtract \$75,000 (\$150,000 if married filing jointly) from the amount on line 2 and enter the result

4 Divide line 3 by \$20,000 and enter the result as a decimal (rounded to at least three places).

Do not enter more than 1.000

5 Multiply line 1 by line 4

6 Subtract line 5 from line 1. This is your **credit**. Enter here and on Form 1040, line 69

	1				
2					
3					
	4		X		
	5				
	6				

General Instructions

Section references are to the Internal Revenue Code.

Purpose of Form

Use Form 5405 to claim the first-time homebuyer credit. The credit may give you a refund even if you do not owe any tax.

For homes purchased in 2008, the credit operates much like an interest-free loan. You generally must repay it over a 15-year period. For homes purchased in 2009, you must repay the credit only if the home ceases to be your main home within the 36-month period beginning on the purchase date. See *Repayment of Credit* on page 2.

Who Can Claim the Credit

In general, you can claim the credit if you are a first-time homebuyer. You are considered a first-time homebuyer if:

- You purchased your main home located in the United States after April 8, 2008, and before December 1, 2009.
- You (and your spouse if married) did not own any other main home during the 3-year period ending on the date of purchase.

If you constructed your main home, you are treated as having purchased it on the date you first occupied it.

Main home. Your main home is the one you live in most of the time. It can be a house, houseboat, house trailer, cooperative apartment, condominium, or other type of residence.

Who Cannot Claim the Credit

You cannot claim the credit if any of the following apply.

1. Your modified adjusted gross income is \$95,000 or more (\$170,000 or more if married filing jointly). See the instructions for line 2.
2. You are, or were, eligible to claim the District of Columbia first-time homebuyer credit for any tax year. This rule does not apply for a home purchased in 2009.
3. Your home financing comes from tax-exempt mortgage revenue bonds. This rule does not apply for a home purchased in 2009.
4. You are a nonresident alien.
5. Your home is located outside the United States.
6. You sell the home, or it ceases to be your main home, before the end of 2008.
7. You acquired your home by gift or inheritance.
8. You acquired your home from a related person.

A related person includes:

- a. Your spouse, ancestors (parents, grandparents, etc.), or lineal descendants (children, grandchildren, etc.).
- b. A corporation in which you directly or indirectly own more than 50% in value of the outstanding stock of the corporation.
- c. A partnership in which you directly or indirectly own more than 50% of the capital interest or profits interest.

For more information about related persons, see *Nondeductible Loss* in Chapter 2 of Pub. 544, *Sales and Other Dispositions of Assets*. When determining whether you acquired your main home from a related person, family members in that discussion (except item 7) include only the people mentioned in 8a above.

Amount of the Credit

Generally, the credit is the smaller of:

- \$7,500 (\$8,000 if you purchased your home in 2009), but only half of that amount if married filing separately, **or**
- 10% of the purchase price of the home.

You are allowed the full amount of the credit if your modified adjusted gross income (MAGI) is \$75,000 or less (\$150,000 or less if married filing jointly). The phase-out of the credit begins when your MAGI exceeds \$75,000 (\$150,000 if married filing jointly). The credit is eliminated completely when your MAGI reaches \$95,000 (\$170,000 if married filing jointly).

Repayment of Credit

Homes purchased in 2008. You generally must repay the credit over a 15-year period in 15 equal installments. The repayment period begins in 2010 and you must include the first installment as additional tax on your 2010 tax return.

If your home ceases to be your main home before the 15-year period is up, you must include all remaining annual installments as additional tax on the return for the tax year that happens. This includes situations where you sell the home, you convert it to business or rental property, or the home is destroyed, condemned, or disposed of under threat of condemnation.

If you and your spouse claim the credit on a joint return, each spouse is treated as having been allowed half of the credit for purposes of repaying the credit.

Example 1. You claimed a \$7,500 credit on your 2008 tax return. You must include \$500 ($\$7,500 \div 15$) as additional tax on your 2010 tax return and on each tax return for the next 14 years.

Example 2. You claimed a \$7,500 credit on your 2008 tax return. In 2009, you sold the home to your son. You must include \$7,500 as additional tax on your 2009 tax return.

Exceptions. The following are exceptions to the repayment rule.

- If you sell the home to someone who is **not** related to you, the repayment in the year of sale is limited to the amount of gain on the sale. (See item 8 under *Who Cannot Claim the Credit* for the definition of a related person.) When figuring the gain, reduce the adjusted basis of the home by the amount of the credit you did not repay.
- If the home is destroyed, condemned, or disposed of under threat of condemnation, and you acquire a new main home within 2 years of the event, you continue to pay the installments over the remainder of the 15-year repayment period.
- If, as part of a divorce settlement, the home is transferred to a spouse or former spouse, the spouse who receives the home is responsible for making all subsequent installment payments.

- If you die, any remaining annual installments are not due. If you filed a joint return and then you die, your surviving spouse would be required to repay his or her half of the remaining repayment amount.

Homes purchased in 2009. You must repay the credit only if the home ceases to be your main home within the 36-month period beginning on the purchase date. This includes situations where you sell the home, you convert it to business or rental property, or the home is destroyed, condemned, or disposed of under threat of condemnation. You repay the credit by including it as additional tax on the return for the year the home ceases to be your main home. If the home continues to be your main home for at least 36 months beginning on the purchase date, you do not have to repay any of the credit.

If you and your spouse claim the credit on a joint return, each spouse is treated as having been allowed half of the credit for purposes of repaying the credit.

Exceptions. The following are exceptions to the repayment rule.

- If you sell the home to someone who is **not** related to you, the repayment in the year of sale is limited to the amount of gain on the sale. (See item 8 under *Who Cannot Claim the Credit* for the definition of a related person.) When figuring the gain, reduce the adjusted basis of the home by the amount of the credit.
- If the home is destroyed, condemned, or disposed of under threat of condemnation, and you acquire a new main home within 2 years of the event, you do not have to repay the credit.
- If, as part of a divorce settlement, the home is transferred to a spouse or former spouse, the spouse who receives the home is responsible for repaying the credit.
- If you die, repayment of the credit is not required. If you filed a joint return and then you die, your surviving spouse would be required to repay his or her half of the credit.

Specific Instructions

Part I General Information

Line B. Enter the date you acquired the home. This is the date you purchased it (or the date you first occupied it if you constructed your main home).

Line C. You can choose to claim the credit on your 2008 Form 1040 for a main home purchased after December 31, 2008, and before December 1, 2009. If you make this choice, check the box.

Part II Credit

Line 1. If two or more unmarried individuals buy a main home, they can allocate the credit among the individual owners using any reasonable method. The total amount allocated cannot exceed the smaller of \$7,500 (\$8,000 if you purchased your home in 2009) or 10% of the purchase price. See *Purchase price* on page 3.

Note. A reasonable method is any method that does not allocate all or a part of the credit to a co-owner who is not eligible to claim that part of the credit.

Purchase price. The purchase price is the adjusted basis of your home on the date you purchased it. This includes certain settlement or closing costs (such as legal fees and recording fees) and your down payment and debt (such as a first or second mortgage or notes you gave the seller in payment for the home). If you build, or contract to build, a new home, your purchase price can include costs of construction. For more information about adjusted basis, see Pub. 551, Basis of Assets.

Line 2. Your modified adjusted gross income is the amount from Form 1040, line 38, increased by the total of any:

- Exclusion of income from Puerto Rico, and
- Amount from Form 2555, lines 45 and 50; Form 2555-EZ, line 18; and Form 4563, line 15.

Paperwork Reduction Act Notice. We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103.

The average time and expenses required to complete and file this form will vary depending on individual circumstances. For the estimated averages, see the instructions for your income tax return.

If you have suggestions for making this form simpler, we would be happy to hear from you. See the instructions for your income tax return.