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TRUST SERVICES

Revised tax credit for home buyers

The tax credit for first time home buyers of up to 10% of the purchase price of a home, slated to expire on November 30, was superseded when Congress enacted the Worker, Homeownership and Business Assistance Act of 2009 in November. The new rules apply to all purchases after November 6, 2009. The new deadlines are April 30, 2010, for binding purchase contracts and June 30, 2010, for settling the purchase. The new law contains a number of important wrinkles that home buyers will want to learn.

- **More taxpayers are eligible.** In addition to the \$8,000 tax credit for first-time buyers, a \$6,500 credit is allowed for “long-time residents” who buy a home. That is, a person who has lived in the same home for five of the previous eight years qualifies for the lower credit.
- **Higher income limits.** The modified adjusted gross income (MAGI) limits had been set at \$75,000 (\$150,000 for joint filers) for a full credit, with a credit phase-out over the next \$20,000 of income. The new law boosts the MAGI limit for singles to \$125,000 and to \$225,000 for married filing jointly. This also expands the pool of taxpayers eligible for the credit.
- **An extra year for members of the military.** Members of the armed forces and certain federal employees serving outside the U.S. get an extra year to claim the home buyer credit. For them, the deadline is April 30, 2011 for binding purchase contracts, June 30, 2011, for settlements.
- **Anti-abuse provisions.** Three new rules apply to prevent the tax credit from being exploited by taxpayers in ways that Congress disapproves of. First, there is zero credit for the purchase of a home for more than \$800,000. Second, dependents are not eligible to claim the credit. Finally, the purchaser must be at least 18 years old on the date of the purchase.

When a home is purchased in 2010, the taxpayer will have the option of claiming the credit on the 2009 or 2010 tax return. Form 5405, First-Time Homebuyer Credit, is used to file the claim. For 2009 tax returns, IRS says that it will not be ready to accept electronic filings of Form 5405. Filings will have to be done with the paper Form.

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