

The First-Time Homebuyer Tax Credit Gets a Significant Upgrade in the New Economic Stimulus Act

Deeply imbedded within the American Recovery and Reinvestment Act of 2009 lies Section 1006, a provision of the Act that extends and increases the benefit of the First-Time Homebuyer Credit that was enacted in the Housing and Economic Recovery Act of 2008. With the increase of the credit and the waiver of the recapture requirement, the new version of the tax credit could be beneficial not only for first-time homebuyers but for your mortgage lending as well.

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How the First-Time Homebuyer Tax Credit Works

The First-Time Homebuyer Credit, as its name suggests, allows a first-time homebuyer of a principal residence to take a credit against their income tax in the amount of 10% of the purchase price of the residence. The 2008 version of the tax credit was limited to \$7,500, but the 2009 version of the tax credit increases the limit to \$8,000. Also, unlike the 2008 First-Time Homebuyer Credit, this one does not have to be paid back.

The 2009 version of the credit is limited to a principal residence that was purchased or constructed between January 1, 2009 and December 1, 2009. A first-time homebuyer is defined as any individual (and if married, includes the individual's spouse) that currently does not own a principal residence nor has had an interest in one within the past 3 year period ending on the date of the purchase of the qualifying home. This includes purchasing a home from a non-related person or constructing a new home, and applies to detached single family homes, townhouses, condominiums, and mobile homes. This credit is not available to any person in the Washington DC area who has taken advantage of a similar credit in that jurisdiction, or any person who is a non-resident alien. Additionally, if your customer purchases a qualifying residence and sells it within the same year, they do not get to take advantage of the credit.

There is a phase out of this tax credit based on income and it is pretty straightforward. Any person making up to \$75,000 (\$150,000 for a married couple) receives the entire amount of the credit. Persons making between \$75,001 and \$95,000 (\$150,000 to \$170,000 if married) receive a reduced amount of credit. Persons making \$95,001 and over (\$170,001 if married) are not eligible to receive the credit at all.

What Does It Mean For You?

The credit is a tax credit, not a credit toward closing costs or some other settlement services. As a result, this credit and any subsequent recapture of the 2008 version of the credit are not reportable on a borrower's good faith estimate or HUD-1 settlement statement, and they have no impact on finance charge and APR calculations under Regulation Z. The 2008 version of the tax credit did not have any impact on your IRS Form 1098, so the 2009 version may not either. However, the credit could be a substantial tax break for your customers in 2009, which could be a great marketing opportunity for your institution.

Keep in mind that a tax credit is a dollar for dollar reduction in the amount of tax that your customer must pay. It is unlike mortgage interest, which only reduces the adjusted gross income (AGI) of your borrower to lower the amount of tax a borrower must pay. In addition, a borrower could receive the benefit of both the mortgage interest deduction and the First-Time Homebuyer Credit. For example, suppose a single borrower purchased a home on January 10, 2009. Next year, as he prepares his tax return, he sees that he had income in 2009 of \$65,000 and an AGI of \$60,000 prior to mortgage interest being deducted. If the borrower receives a 1098 for tax year 2009 showing that he paid \$6,000 in mortgage interest in 2009, his AGI will be reduced to \$54,000, so his tax due is reduced to approximately \$9,800. A tax credit then directly reduces the tax amount owed. In this instance, after the \$8,000 First Time Homebuyer Credit is applied against the \$9,800 tax liability, the borrower's amount of tax owed for 2009 will be reduced to approximately \$1,800. Such a significant and immediate tax benefit could be a motivating incentive for buyers to purchase their first homes, despite the state of the economy.

As always, when dealing with tax rules, you should advise your customers to consult their tax advisors to learn more about the credit and whether they should take advantage of it. You can get more information concerning the First-Time Homebuyer Credit at http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=111_cong_bills&docid=f:h1enr.pdf.