

Monday, November 23, 2009

\$8000 toward your first home – FREE! More Time & New Rules

Is owning your own home a *dream* that does not seem possible in *reality*? Might your dream come true if somebody gave you \$8,000 toward a down payment? Could you make it work if they required you to use it by ~~November 30~~ April 30, 2010?

You may qualify for a credit of up to \$8,000 if you buy a U.S. home as your principle residence between January 1, 2009 and April 30, 2010. (If you have a binding contract by April 30, 2010, you may qualify if you close on the home by June 30, 2010.)ⁱ There are several other requirements to qualify for the first-time homebuyer credit, as well as some other common misunderstandings of the rules. Let's explore some of them:

To qualify for the first-time homebuyer credit, you don't have to be a "first-time homebuyer". The law is you must not have owned a U.S. principle residence in the three year period prior to this purchase of a home which you are using to qualify for the credit. You may have owned a home prior to that time, and you may even still own a vacation home or other real estate. In the case of a married couple, *neither* spouse may have owned a principle residence during that three year period.

You must buy the house from somebody who is not part of your family or your spouse's family. In this case, family includes your spouse, children, grandchildren, parents or grandparents. For purposes of this credit, brothers, sisters, aunts, uncles, cousins, nephews, nieces, etc. are not considered to be related. (I know some of you like to consider them outside of family anyway!)

Generally, the money does not have to be paid back, as long as you continuously use the home as your principle residence for three years. If you move from the home, convert the home to vacation property or a second home, convert it to business or rental use, or sell the home in the three years following the purchase, the credit must be re-paid. There are exceptions for death or a sale at a loss. (This is different than the \$7,500 credit offered in 2008 which did require re-payment over a 15 year period.)

For a 2009 purchase, you may claim the credit on your 2008 return by filing an amendment, or waiting and filing on your 2009 return. For 2010 purchases, you may claim the credit on your 2009 return or your 2010 return. Filing in the earlier year will help you receive the fund much sooner than waiting to file your tax return for the same

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year as the purchase. Choosing which year to claim the credit may be important because you will have to use a year in which you qualify under the income limitations. For purchases before November 7, 2009, the credit is phased out if your modified adjusted gross income (AGI) is over \$75,000 (\$150,000 for a joint return). You may still qualify for a partial credit if your AGI is between \$75,000 and \$95,000 (\$150,000 and \$170,000 for joint returns). For purchases after November 6, 2009, the credit is phased out if your AGI is over \$125,000 (\$225,000 for a joint return). You may still qualify for a partial credit if your AGI is between \$125,000 and \$145,000 (\$225,000 and \$245,000 for joint returns). This might affect your decision as to which year to claim the credit.

Additional rules to qualify for the credit for purchases after November 6, 2009 are that you (or your spouse) must be at least 18 years of age as of the date of purchase, no one else may qualify to claim you as a dependent on their tax return for the year of purchase, and the purchase price of the home must not be more than \$800,000.

Traditionally we think of a home purchase as a house on a lot, but that is not necessary to qualify for the credit. It may be a house-boat, modular home, condominium, co-operative apartment or other residence as long as you make it your principal residence. You also may build a new home, but in this case you make take the credit only if you have closed and moved into the home by April 30, 2010. The home may also be purchased from the seller on a contract instead of with a mortgage or cash sale.

Another important note, the credit is the smaller of 10% of the purchase price of the home or \$8,000. A home for \$60,000 would have a maximum credit of \$6,000, not \$8,000. (If you file married filing separately, the maximum credit is \$4,000 for each spouse.) If two or more unmarried individuals purchase a principle residence, the total credit allowed to all of the individuals is \$8,000, and usually, the credit may be allocated among the purchasers using any reasonable method.

There is also a credit available for long-time home-owners when they buy a replacement principle residence. For more information on this credit, visit www.cwccpas.com/grand-rapids-tax-articles.htm.

In addition to the homebuyer tax credits, there are other tax deductions widely used by homeowners which you may qualify for. For more information and guidance on how this credit and other tax deductions will benefit you, consult your professional tax advisor.

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ⁱ Service members serving on qualified extended duty outside of the U.S. for at least 90 days after 12/31/2008 and before 5/1/2010 are granted one additional year until April 30, 2011 and June 30, 2011.