

# Getting Familiar with the 2009 Federal and State Tax Credits

Both federal and state tax credits are available for 2009, and will serve as strong incentives for potential homebuyers, and hopefully as a catalyst for a market turnaround in the near future. As a REALTOR®, you can position yourself the go-to expert for your clients on the 2009 tax credits.

Below are the most common questions related to each tax credit.

## 1. What's the new federal homebuyer tax incentive for 2009?

The 2008 \$7,500, repayable credit is increased to \$8,000 and the repayment feature is eliminated for 2009 purchasers. Any home that is purchased for \$80,000 or more qualifies for the full \$8,000 amount. If the house costs less than \$80,000, the credit will be 10% of the cost. Thus, if an individual purchased a home for \$75,000, the credit would be \$7,500. It is available for the purchase of a principal residence on or after Jan. 1, 2009 and before Dec. 1, 2009.

## 2. Who is eligible?

Only first-time homebuyers are eligible. A person is considered a first-time buyer if he/she has not had any ownership interest in a home in the three years previous to the day of the 2009 purchase.

## 3. How does a tax credit work?

Every dollar of a tax credit reduces income taxes by a dollar. Credits are claimed on an individual's income tax return. Thus, a qualified purchaser would figure out all the income items and exemptions and make all the calculations required to figure out his/her total tax due. Then, once the total tax owed has been computed, tax credits are applied to reduce the total tax bill. So, if before taking any credits on a tax return a person has total tax liability of \$9,500, an \$8,000 credit would wipe out all but \$1,500 of the tax due. ( $\$9,500 - \$8,000 = \$1,500$ )

## 4. So what happens if the purchaser is eligible for an \$8,000 credit but their entire income tax liability for the year is only \$6,000?

This tax credit is what's called "refundable" credit. Thus, if the eligible purchaser's total tax liability was \$6,000, the IRS would send the purchaser a check for \$2,000. The refundable amount is the difference between \$8,000 credit amount and the amount of tax liability ( $\$8,000 - \$6,000 = \$2,000$ ). Most taxpayers determine their tax liability by referring to tables that the IRS prepares each year.

## 5. Is there an income restriction?

Yes. The income restriction is based on the tax filing status the purchaser claims when filing his/her income tax return. Individuals filing Form 1040 as Single (or Head of Household) are eligible for the credit if their income is no more than \$75,000. Married couples who file a Joint return may have income of no more than \$150,000.

## 6. What's the definition of "principal residence?"

Generally, a principal residence is the home where an individual spends most of his/her time (generally defined as more than 50%). It is also defined as "owner-occupied" housing. The term includes single-family detached housing, condos or co-ops, townhouses or any similar type of new or existing dwelling. Even some houseboats or manufactured homes count as principal residences.

## 7. Are there restrictions related to the financing for the mortgage on the property?

In 2009, most financing arrangements are acceptable and will not affect eligibility for the credit. Congress eliminated the financing restriction that applied in 2008. (In 2008, purchasers were ineligible for the \$7,500 credit if the financing was obtained by means of mortgage revenue bonds.) Now, mortgage-revenue bond financing will not disqualify an otherwise-eligible purchaser. (Mortgage revenue bonds are tax-exempt bonds issued by a state housing agency. Proceeds from the bonds must be used for below market loans to qualified buyers.)

## 8. Do I have to repay the 2009 tax credit?

NO. There is no repayment for 2009 tax credits.

## 9. Do 2008 purchasers still have to repay their tax credit?

YES. The \$7,500 credit in 2008 was more like an interest-free loan. All eligible purchasers who claimed the 2008 credit will still be required to repay it over 15 years, starting with their 2010 tax return.

## 10. How do I apply for the credit?

There is no pre-purchase authorization, application or similar approval process. All eligible purchasers simply claim the credit on their IRS Form 1040 tax return. The credit will be reflected on a new Form 5405 that will be attached to the 1040. Form 5405 can be found at [www.irs.gov](http://www.irs.gov).

## 1. Is this tax credit limited to first time homebuyers?

NO, all purchasers of an eligible single family residence in Georgia that file a Georgia income tax return can claim the credit.

## 2. Can the Georgia credit be combined with the federal \$8,000 first time homebuyer tax credit?

YES, if buyers meet the qualification for each credit they may claim both. Each credit operates independently from the other. One is claimed on your federal income tax return, the other is claimed on your Georgia income tax return.

## 3. Is it true this credit is limited to the purchase of a single family residence?

YES, the tax credit is limited to the purchase of one single family residence.

Single-family residences (including condominiums) are eligible if they are:

- New residences, residences occupied at the time of sale, or previously occupied residences, if such residences:
  - Were for sale prior to the effective date (5/11/09) and were still for sale after the effective date;
- Owner-occupied residences with respect to which the owner's acquisition debt is in default on or before March 1, 2009; and
- Residences with respect to which a foreclosure event has taken place and which are owned by the mortgagor or the mortgagor's agent.

## 4. Is it true that eligible single family residences must have been listed prior to May 11, 2009, in order to qualify for the credit?

YES, the original intent of the bill was aimed at reducing the housing stock that has been on the market for an extended period of time.

## 5. Is it true that only eligible buyers that close between June 1, 2009, and Nov. 30, 2009, can claim the credit?

YES, the intent of credit is to stimulate the market by encouraging potential buyers to get off the fence and BUY NOW!

## 6. How do I determine the amount of tax credit for which I am eligible?

The tax credit will be for 1.2% of the purchase price, with a maximum credit of \$1,800 (whichever is less). Homes purchased for \$150,000 or more will receive a maximum of \$1,800.

## 7. Can I claim all \$1,800 on my 2009 income tax returns?

NO, the total amount of your credit must be claimed in one-third increments over a three year period. The maximum credit per year is \$600 if you are eligible for the maximum \$1,800. Any excess or unused credit may be carried forward to apply to succeeding years' tax liability.

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## 8. Can I amend my 2008 Georgia income tax return to claim the credit?

NO, the tax credit cannot be applied against prior years' tax liability.

## 9. I am looking for investment property or a second home, is the credit available for the purchase of owner-occupied residences only?

NO, all eligible single family residences qualify for the credit. However, each taxpayer can claim the credit one time only.

## 10. Is there an income limit for buyers who claim the credit?

NO, there are no income limits applicable to this credit.

## 11. Is there a limit to how long a buyer must own the property to claim the credit?

NO, there is not a limit to how long a buyer must own the property.

## 12. Does any portion of the credit require repayment for any reason?

NO, if you are awarded the credit there are no penalties that would require you repay any portion of the credit.

For more FAQs and information on both tax credits, visit [www.garealtor.com](http://www.garealtor.com) and under the Governmental Affairs tab, select "Current Issues."

