

What you should know about the First-Time Homebuyer Tax Credit & How You Can Apply it to Your Closing Costs

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The American Recovery and Reinvestment Act of 2009 features an \$8,000 tax credit for first-time buyers who purchase a home on or after January 1, 2009 and before December 1, 2009. Additionally, this tax credit may be available to homebuyers as collateral for short-term or “bridge loans” to use towards your downpayment, closing costs, or to buy down your mortgage interest rate.

Who qualifies?

- The temporary credit is only available for home purchases made from Jan. 1, 2009 to before Dec. 1, 2009 and is equal to 10% of the cost of the home, up to a maximum credit of \$8,000. (For example, a home purchased for \$80,000 or more would qualify for the full \$8,000 credit, while a \$70,000 home would qualify for only 10%, or \$7,000.)
- Buyers claim the credit on their federal tax return to reduce their tax liability. If the credit is more than their total tax liability that year, the buyer will receive a refund check for the balance.
- Only first-time homebuyers can take advantage of the tax credit. A first-time buyer is defined under the tax credit as an individual who has not owned a home in the last three years. For married joint filers, both must meet the first-time homebuyer test to take the credit on a joint return.
- Eligible properties include anything that will be used as a principal single-family residence — including condos and townhouses.
- There are income guidelines on the credit. Individuals with an adjusted gross income up to \$75,000 (or \$150,000 if filing jointly) are eligible for the full tax credit. The credit is phased down for those earning more and is not available for those with an income above \$95,000 (or \$170,000 if filing jointly).
- The new tax credit does not have to be repaid if the buyer stays in the home at least three years. If the home is sold before that, the entire amount of the credit is recaptured on the sale.
- People who purchased homes under the 2008 \$7,500 tax credit program will still be required to repay that credit to the government over a 15-year period.

How do I apply it?

- Federal, state, and local governmental agencies and nonprofit instrumentalities of government, FHA-approved nonprofits, and FHA-approved mortgagees may provide short-term or “bridge loans” secured only by the anticipated tax credit due the homebuyer as collateral.
- These loans may not exceed the anticipated tax credit due the homebuyer based on the computations of form IRS 5405, nor can they be used to cover the minimum 3.5% downpayment requirement.
- Fees and charges for the tax credit advance loan are not to exceed a nominal amount necessary for preparing and administering the loan.

Consult with your REALTOR® or tax adviser and visit www.VARealtor.com to learn more about the tax credit and state and federal loan programs.


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