

Q&A clears the air about homebuyer tax credits

McLEAN, Va. – Nov. 25, 2009 – If you're in the market for a home, the world is your oyster. Interest rates are at record lows. Housing prices in many parts of the country are still depressed. And you may be eligible for a generous tax break, even if the home you buy isn't your first.

On Nov. 6, President Obama signed legislation that provides a \$6,500 tax credit for some current homeowners who buy another home. The law also extends the \$8,000 tax credit for first-time homebuyers, scheduled to expire Nov. 30, until next spring.

A lot of people are interested in taking advantage of this tax break, but the expanded credit also has whipped up a lot of confusion. Here are some answers to frequently asked questions:

Q: How do I qualify for the \$6,500 credit?

A: This credit is available for homebuyers who sign a binding contract on a new or existing home by April 30, 2010, and settle by July 1 (deadlines that also apply to the first-time homebuyer credit). You must have lived in your existing home for five consecutive years out of the last eight. The home you purchase must be your primary residence. However, the law doesn't require you to sell your old home, says Bob Meighan, vice president at TurboTax, the tax software provider. You can use it as a second home or a rental and still claim the credit, he says.

Q: I sold a home I had lived in for more than five years and bought a new one in August. Do I qualify for a tax credit?

A: No. For existing homeowners, the \$6,500 credit is limited to homes purchased after Nov. 6.

Q: Does the home I buy have to be more expensive than the one I own now?

A: No. While the real estate industry is hopeful that homeowners will use this credit to buy a nicer place, there's no prohibition against using it to downsize, Meighan says. That makes this credit particularly useful for seniors who are interested in moving into a smaller home.

If you are planning to move up, keep in mind that you can't claim the credit if the purchase price of the home exceeds \$800,000. Unlike some other tax credits, this one doesn't slowly phase out once you exceed the threshold, Meighan says. If you buy a home for more than \$800,000 – and that refers to the purchase price, not the assessed value or the amount of your mortgage – you are ineligible for the credit, period.

The \$800,000 cap also applies to first-time homebuyers, but only those who purchase a home after Nov. 6. First-time homebuyers who bought a home for more than \$800,000 between Jan. 1 and Nov. 6 can still claim the credit, assuming they meet the other criteria, Meighan says.

Q: I'm an existing homeowner, and would like to build a new home. Can I claim the credit?

A: Yes, but make sure your builder is good at meeting deadlines. You can claim the credit as long as you have a binding contract in place by April 30 and close by July 1. In the case of a new home, the closing date is the day you move in, Meighan says. If your home isn't habitable by June 30, you won't be able to claim the credit, he says.

Q: I bought a home in 2008 and claimed the old \$7,500 first-time homebuyers credit, which must be repaid over 15 years. Did the new law change that rule?

A: No. That credit, which was available for homes purchased between April 9, 2008, and Dec. 31, 2008, must still be repaid.

The \$8,000 first-time homebuyer credit, available for homes purchased after Dec. 31, 2008, doesn't have to be repaid as long as you remain in the home for at least three years. Existing homeowners who qualify for the \$6,500 credit don't have to repay that money, either, as long as they meet the three-year requirement.

Q: We have a rental home and would like to sell it to our son, who has never owned a home. Would he qualify for the first-time homebuyer credit?

A: No. The legislation specifically prohibits taxpayers from claiming the credit if the sale is between "related parties," Meighan says. A home sale to a parent, grandparent, child or grandchild would fall into that category.

Q: I sold my home this year and have been renting since. If I buy a new home, do I qualify for the expanded credit?

A: Yes, as long as you meet all of the other requirements, says Mel Schwarz, partner with Grant Thornton in Washington, D.C. The eight-year period used to determine eligibility ends on the day you buy your new home,