A Q&A TO UNDERSTANDING THE HOMEBUYER TAX CREDIT

THE BASICS

Q. What's this homebuyer tax credit for 2010?

A. Congress has passed new legislation that extends and expands the First-Time Homebuyer Tax Credit that was originally created in early 2009. Now the tax credit is not only available to first-time homebuyers, but to all homebuyers (restrictions do apply). The tax credit was also extended until April 30, 2010. First-time homebuyers can receive a tax credit of up to $8,000 and current homeowners purchasing a new or existing home can receive a tax credit of up to $6,500.

Q. Who is eligible?

A. *First-Time Homebuyers* - Any person who has not owned a principal residence in the past three years may qualify as a first-time homebuyer, subject to income restrictions (see below).

Long-Time Residents of Same Principal Residence - Someone who has owned a home and occupied it as the principal residence for any consecutive five-year period during the last eight years may also be eligible for a credit, also subject to the new income ceilings. This does include current homeowners, so long as the home was both owned and occupied by the taxpayer for at least five consecutive years.

Q. How does a tax credit work?

A. Every dollar of a tax credit reduces income taxes by a dollar. Credits are claimed on an individual's income tax return. A qualified purchaser figures out their total tax owed and then the tax credits are applied to reduce the total tax bill, i.e. if a person has total tax liability of $9500, an $8000 credit would wipe out all but $1500 of the tax due.

Q. What happens if the purchaser is eligible for the $8000 credit but their entire income tax liability for the year is only $6000?

A. If the total tax liability was $6000, the IRS would send the purchaser a check for $2000. The refundable amount is the difference between $8000 credit amount and the amount of tax liability, determined by tables that the IRS prepares each year.

Q. Is there an income restriction?

A. Yes. *First-Time Homebuyers*–The Modified Adjusted Gross Income (MAGI) limit is now $125,000 for singles, $225.000 for couples. *Long-Time Residents of Same Principal Residence*–the income levels are the same: $125,000 for singles, $225,000 for couples.

Q. Do individuals with higher incomes lose all the benefit of the credit?

A. Not always. Partial credit is available for those with a Modified Adjusted Gross Income (MAGI) between $125,000 to $145,000 ($225,000-$245,000 for joint filers). The closer a buyer comes to the maximum phase-out amount, the smaller the credit will be. The law provides a formula to gradually withdraw the credit.

Q. How is "principal residence" defined?

A. Generally, a principal residence is where an individual spends most of his/her time (generally defined as more than 50%). Also defined as owner-occupied housing, it includes single-family detached housing, condos or co-ops, townhouses or any similar type of new or existing dwelling. Current homeowners who are buying a new home do not need to sell their current home. However, the new home does need to become the buyer's new principal residence. Sales between immediate family members are ineligible. It is also important to note that the purchase price of the home cannot exceed $800,000.

Q. Do I have to repay the 2010 tax credit?

A. There is no repayment.

THE PROCESS

Q. How do I apply for the credit?

A. 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

Q. Can I use it as part of my downpayment or closing costs?

A. Yes, but only for first-time homebuyers who use a loan from MassHousing to purchase their home. Those buyers may be eligible for MassHousing's Homebuyer Tax Credit Loan Program. For more information, go to www.masshousing.com.

Q. Is there a way to get any cash flow benefits before I file my tax return?

A. Yes. Any homebuyers who are eligible for all or part of the credit can modify their income tax withholding (through their employers) or adjust their quarterly estimated tax payments. Individuals subject to income tax withholding would get an IRS Form W-4 from their employer. In many cases their withholding would decrease and their take-home pay would increase. Those who make estimated tax payments would make similar adjustments.

MAKING IT WORK

Q. When do I need to close?

A. To take advantage of the tax credit, you need to have a signed purchase and sale agreement or a binding offer to purchase by April 30, 2010. Then you need to close (when the transfer of title from the seller to the new purchaser has occurred) on or before June 30, 2010.

Q. Do I have to wait until next year to get the credit?

A. Homebuyers who purchase a home in 2009 can claim the credit on either a 2008 tax return, due April 15, 2009, or a 2009 tax return, due April 15, 2010. The credit may not be claimed before the closing date. But, if the closing occurs after April 15, 2009, a taxpayer can still claim it on a 2008 tax return by requesting an extension of time to file or by filing an amended return. Likewise, when a home is purchased in 2010, the taxpayer will have the option of claiming the credit on their 2009 or 2010 tax return, so long as not claimed before the closing date.

Q. Will I ever have to repay any of the credit back to the government?

A. If you claim the credit but then sell the property within three years of the date of purchase, you are required to pay back the full amount of any credit, including any refund you received from it. A few exceptions apply.

Source: National Association of REALTORS®

NOTE: This document is for informational purposes and should not be construed as tax or legal advice. For specific advice on their own tax situation consumers should always consult a qualified tax professional.

NOW IS A GOOD TIME TO BUY A HOME

As part of its plan to stimulate the U.S. housing market and address the economic challenges facing the nation, Congress has passed new legislation that:

- Extends the First-Time Homebuyer Tax Credit of up to $8,000 to first-time homebuyers until April 30, 2010.
- Expands the credit to grant up to $6,500 credit to current homeowners purchasing a new or existing home between November 7, 2009 and April 30, 2010.

A window of opportunity has opened that may never be seen again with the homebuyer tax credit, but there are more reasons to buy NOW:

Great Incentives

The homebuyer tax credit gives buyers a great incentive for first-time homebuyers get into the market and for current homeowners, this means they have a better chance to become a move-up buyer.

Affordability

Prices are more affordable than they have been in years and interest rates for now continue to be historically low.

Building Wealth

The median net worth of a renter household is $4,800, while the median net worth of a homeowner household is $171,700. (Federal Reserve Survey of Consumer Finances)

Tax breaks

Tax advantages to homeownership include: interest payments on mortgages and property taxes in most cases; home equity loans which may also be used to consolidate debt, thereby making all the debt interest tax deductible.

A long-term investment

Real estate remains a good long-term investment. Typical annual rate of appreciation is five percent and the homeowner who made a cash down payment of 10 percent generally will receive a 94 percent return on that cash after owning the home only three years, 225 percent after five years and 623 percent after 10 years. (Harvard University's Joint Center for Housing Studies)

For more information visit MassHomeFacts.org

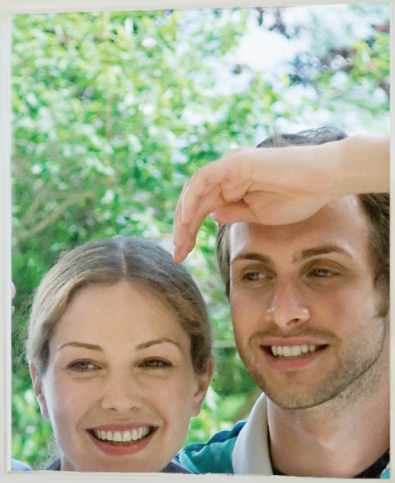
MAR
MASSACHUSETTS ASSOCIATION OF REALTORS®

256 SECOND AVENUE WALTHAM, MA 02451
TEL 781·890·3700 FAX 781· 890·4919

A Window of Opportunity: The 2010 Homebuyer Tax Credit

** You must have a signed and binding contract to purchase by April 30 and close on or before June 30, 2010*

EXPIRES April 30 2010



MAR
MASSACHUSETTS ASSOCIATION OF REALTORS®