First-Time Homebuyer Tax Credit

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One of the most exciting new provisions of the Housing and Economic Recovery Act of 2008 is the First-Time Homebuyer Tax Credit. The credit is designed to encourage first-time homebuyers to go ahead and make the leap to purchase their first homes. Combine this tax credit with the fact that home prices are at historical lows, and indeed it is an ideal time for many first-time homebuyers to purchase homes.

Here are some things to keep in mind:

- The credit is available for homes purchased between April 9, 2008 and July 1, 2009
- The credit amounts to 10% of the purchase price of the home not to exceed $7,500
- A first-time homebuyer is defined as someone who has not owned a home in the last three years
- Single taxpayers with incomes up to $75,000 and married couples with incomes up to $150,000 qualify for the full tax credit
- The tax credit works like an interest free loan and must be repaid over a 15 year period

How does a tax credit work?

A tax credit is a special provision that reduces income tax liability on a dollar for dollar basis. When filing a tax return, you must include income items, deduction items and the number of exemptions, among other things, to figure your total tax liability. If your total tax liability ends up being $7,500, and you qualify for the full $7,500 tax credit, this credit would be applied and would wipe out all of the tax due. If your employer had already deducted the $7,500 from your pay checks throughout the year, you would receive a tax refund of $7,500.

Does the credit have to be repaid?

Yes, the credit does have to be repaid, so it is really more like an interest free loan. Homebuyers will be required to repay the credit to the government, without interest, over 15 years or when they sell the house, if there is sufficient capital gain from the sale. For example, a homebuyer claiming a $7,500 credit would repay the credit at $500 per year. The home owner does not have to begin making repayments on the credit until two years after the credit is claimed. So if the tax credit is claimed on the 2008 tax return, a $500 payment is not due until the 2010 tax return is filed. If the home owner sold the home, then the remaining credit amount would be due from the profit on the home sale. If there was insufficient profit, then the remaining credit payback would be forgiven.

Conclusion:

For more information about the first-time homebuyer tax credit or other changes resulting from the Housing and Economic Recovery Act of 2008, just give me a call. I would be happy to assist you with your mortgage in the purchase of your new home!

David Arrona, CMPS®
Arrona Financial
975 Osos Street
San Luis Obispo, CA 93401

805.544.0160 direct
805.441.7976 alternate
david@arronainc.com
http://www.arronafinancial.com

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