

# Qualify Now For Up To An \$8,000 Tax Credit

If you're thinking of buying a home this year, doing so before April 30, 2010 could earn you one of the latest tax credits, which were made available in late 2009. Qualified first-time home buyers can take up to an \$8,000 tax credit (or \$4,000 each if you're married filing separately), while qualified longtime homeowners can claim up to \$6,500 (\$3,250 if married filing separately).

What's even better is that both these tax credits are "refundable." That means, if your tax bill for the year is lower than the credit amount you qualify for, you would receive the difference as a tax refund.

## The New Rules

Of course, these new tax credits do come with a few strings attached:

- You must use the home as your principal residence for the first 36 months of ownership (otherwise the credit must be repaid).
- The purchase price of the home cannot exceed \$800,000.
- The credit you claim cannot exceed 10% of the home's purchase price.
- The home must be purchased after November 6, 2009 but you must have a binding contract to purchase by April 30, 2010, with closing/settlement no later than June 30, 2010.
- You must attach documentation of your home purchase to the tax return on which you claim the credit.
- Homes cannot be purchased in the name of a dependent; owners must be 18 or older.

## Who Qualifies?

Qualified first-time buyers — who can claim a credit up to \$8,000/\$4,000 (depending on filing status) — are defined as those who have not owned a home in the three years prior to settling/closing on the new home.

As a current homeowner who buys a replacement home, you can qualify for the \$6,500/\$3,250 credit if you owned and lived in your home for any consecutive five-year period in the eight years prior to settlement/closing.



Income limits apply both to first-time buyers and move-up buyers:

- Single taxpayers and married couples who file separately can claim the full applicable tax credit if their Modified Adjusted Gross Income (MAGI) does not exceed \$125,000. Above that amount, the credit is phased out until it disappears at \$145,000.
- Married-joint filers (and those with equivalent status) can claim the full applicable tax credit with MAGI up to \$225,000. From \$225,000 to \$245,000, the credit is phased out to zero.

## Tax Credit Works For You

The beauty of a tax credit is that you can make it worth so much more than its face value, depending on how you choose to use it.

**Prepayment:** Say you use the credit to prepay some of your mortgage. For example, you take out a \$200,000 30-year fixed-rate mortgage at 6% in March 2010. Next year, after filing your taxes, you use the credit to prepay \$8,000 of mortgage principal along with your 13th regular loan payment. That single extra payment would shorten your loan term by 2 years, 10 months and save you an impressive \$33,475 of interest expense over the life of the loan. (Your savings would be somewhat lower, however, because your mortgage-interest tax deduction would be smaller, depending on your tax bracket.)

**Get your tax credit early:** Be sure to check with a tax professional, but the IRS says if you buy a home in 2010 by the deadline, you can claim the credit on either your 2009 or 2010 return. In addition, some state and local programs, as well as programs from non-profit agencies, may be available to help you "monetize" your tax credit so you can use the money to help cover the closing costs on your home purchase. Ask us for more details.

**No Restrictions:** There are no restrictions on how home buyers use the money. You can use this additional new income to replenish your down payment savings, to purchase furniture, make improvements and repairs, or just save for a rainy day. (Be sure to readjust your tax withholding when you have accrued the total amount of your tax credit.) Additionally, if your home purchase falls through or plans change, ensure that the money is not spent, but repaid to the IRS to avoid penalties. Consult a tax professional before undertaking this plan.

## Help For Service Members

Members of the Armed Forces, military intelligence and foreign service who were deployed overseas for at least 90 days in 2008 or 2009 are allowed an additional year — until April 30, 2011 — to purchase a home and claim their tax credit.

To Purchase Call (703) 698-7750