

TAR Governmental Affairs Department Report
Breakdown of \$8,000 Tax Credit
February 13, 2009

This week Congress passed an economic stimulus package that included an extension and increase in the previous \$7,500 first-time tax credit from last summer to \$8,000. There are also some attractive features of the new version. NAR President Charles McMillan said of the bill:

“Here's our take on the Stimulus Bill and Treasury announcements made this week. We look at the Stimulus package AND the Treasury's package holistically, in compliment with each other - mostly because that's how the Obama team is looking at it. Your representatives, the NAR Board of Directors, asked us in November to do 4 things (with an unspoken but clearly understood mandate to PRESERVE what we already have). Here they are: 1) get loan limits raised for high cost areas, 2) make the \$7,500 tax credit NOT a loan, 3) try to find ways to push interest rates down (which are higher than they should be due to systemic risk right now) by 200 basis points, and 4) help provide solutions to the foreclosure/short sale problem.

“So here's what we have achieved: 1) the loan limits will be raised to \$727,000 in high cost areas, 2) the tax credit will be raised to \$8,000 with NO payback [a true credit], 3) interest rates have come down 125-150 basis points, and 4) the bill has over \$50 billion in it for foreclosure mitigation, with Geitners' Treasury plan signaling that the second half of TARP and TALF will be used to mitigate foreclosures through a government guarantee, drive down interest rates by buying another \$200-300 billion of mortgage paper from the GSEs thereby freeing them up to do the same with new mortgages, and Fannie has just agreed to lift the cap of 4 investment properties eligible for loans and raise it to 10.”

Specifically the changes from the 2008 \$7,500 tax credit are:

- Maximum credit amount is increased to \$8,000.
- An eligible property is any single family residence; including condos, co-ops, or townhouses that will be used as your principal residence. Investment or second home properties do not qualify.
- It's refundable unlike the former 'credit'. That means you can reduce or eliminate your income tax liability up to the \$8,000 limit for the year of purchase. Any unused amount can be refunded to you in cash in the year following your qualifying home purchase.
- An individual with adjusted gross income of not more than \$75,000 or \$150,000 on a joint return are eligible.
- Although it's called the “First Time Homebuyer” tax credit, as long as you have not owned a home in the past 3 years that was your principal residence you probably qualify.
- Homebuyers who use state revenue bond financing, in Tennessee that would be the Tennessee Housing Development Authority (THDA) qualify under the new, \$8,000 credit; they did not under the \$7,500 program.
- The \$8,000 is a true credit and does not have to be repaid.

- If you sell the house you buy and claim credit for during the 3 years following the purchase all of the credit is subject to recapture (you have to pay it back).
- This program begins January 1, 2009 and ends December 1, 2009.
- Any revisions are effective as of January 1, 2009.

The breakdown from NAR:

FIRST-TIME HOMEBUYER TAX CREDIT
As Modified in the American Recovery and Reinvestment Act
Major Modifications Shaded
February 2009

FEATURE	CREDIT AS CREATED JULY 2008 APPLIES TO ALL QUALIFIED PURCHASES ON OR AFTER APRIL 9, 2008	REVISED CREDIT – EFFECTIVE FOR PURCHASES ON OR AFTER JANUARY 1, 2009 AND BEFORE DECEMBER 1, 2009
Amount of Credit	Lesser of 10 percent of cost of home or \$7500	Maximum credit amount increased to \$8000
Eligible Property	Any single family residence (including condos, co-ops, townhouses) that will be used as a principal residence.	No change All principal residences eligible.
Refundable	Yes. Reduces (or can eliminate) income tax liability for the year of purchase. Any unused amount of tax credit refunded to purchaser.	No change Purchasers will continue to receive refund for unused amount when tax return is filed.
Income Limit	Yes. Full amount of credit available for individuals with adjusted gross income of no more than \$75,000 (\$150,000 on a joint return). Phases out above those caps (\$95,000 and \$170,000).	No change Same income limits continue to apply.
First-time Homebuyer Only	Yes. Purchaser (and purchaser's spouse) may not have owned a principal residence in 3 years previous to purchase.	No change Still available for first-time purchasers only. Three-year rule continues to apply.
Revenue Bond Financing	No credit allowed if home financed with state/local bond funding.	Purchasers who utilize revenue bond financing can use credit.
Repayment	Yes. Portion (6.67% of credit or \$500) to be repaid each year for 15 years, starting with 2010 tax filing.	No repayment for purchases on or after January 1, 2009 and before December 1, 2009
Recapture	If home sold before 15-year repayment period ends, then outstanding balance of repayment amount recaptured on sale.	If home is sold within three years of purchase, entire amount of credit is recaptured on sale. Applies only to homes purchased in 2009.

Termination	July 1, 2009 (But note program changes for 2009)	December 1, 2009
Effective Date	Purchases on or after April 9, 2008 and before January 1, 2009. Repayment to begin for 2010 tax year.	All revisions are effective as of January 1, 2009

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