



6 Key Facts About the First-Time Buyer Tax Credit

The tax credit may be enough of an incentive for potential buyers to jump off the fence. That is, if they know about it.

By Robert Freedman | November 2008

The \$7,500 home ownership tax credit that the federal government created earlier this year as part of the Housing and Economic Recovery Act (H.R. 3221) is another tool at your disposal to encourage potential buyers to jump off the fence and get into the real estate market.

When you combine the tax credit with today's low interest rates, wide selection of for-sale inventory, and affordable home prices, many of the pieces are in place for your customers to buy now. But tax credits can be confusing. To help your clients understand how the credit works and why it would help them, you must learn the details.

Here are 6 things you should be able to explain to prospects and clients:

1. Buyers have until July 2009 to make a purchase that qualifies.

The tax credit was passed in July of this year as part of the Housing and Economic Recovery Act (H.R. 3221). It's worth up to \$7,500 and can be taken in a single tax year. Authorization for the credit ends July 1, 2009, so if your customers wait to buy in the first half of 2009 they can take the credit on their 2009 tax return. Taxpayers can take the credit on their 2008 tax return if they bought their house this year after April 9.

2. Buyers don't really have to be "first-timers."

The tax credit is actually available to any individual or household that hasn't owned a home for at least three years. And the NATIONAL ASSOCIATION OF REALTORS® has asked Congress to expand the credit to all buyers, not just those who haven't owned a primary residence in recent years.

3. Even if buyers exceed the income limit, they can benefit from the credit.

The actual credit amount is set as a percentage of the home purchase amount. That percentage amount is 10 percent, so your customers can get 10 percent of the home price credited against their tax liability, up to a maximum \$7,500. Sounds like a great deal. But what if your clients make more money than the income limit of \$75,000 for individuals and \$150,000 for households? Good news: Individuals whose income exceeds the \$75,000 limit but don't make more than \$95,000 can still take the credit but on a reduced basis. The same thing applies to households earning up to \$170,000. By the way, any house is eligible as long as it's a primary residence and is in the United States.

4. Think of it as an interest-free loan.

The federal government requires the tax credit to be paid back in small, 6.67-percent increments over 15 years, although repayment will be no more than \$500 yearly and payments will not start until 2011. For that reason, some analysts have likened the credit to a 15-year, interest-free loan to help make home buying affordable. NAR is pushing congress to remove the repayment provision, making this tax credit a true tax credit rather than an interest-free loan.

5. You don't have to be authorized before making a home purchase.

There is no pre-purchase authorization, application, or other approval process. Eligible buyers simply have to claim the credit on their IRS Form 1040 tax return and/or any form that the IRS might devise.

6. New-home construction qualifies.

For a home that a buyer constructs, the purchase date is the first date the buyer occupies the home. However, any home that is not a primary residence, such as a vacation home or income property, does not qualify.

NAR Asking Congress to Expand Credit

As mentioned above, NAR has asked Congress to do away with the repayment provision of the first-time buyer tax credit and expand the credit to all home buyers, not just first-timers. The proposals were part of a [four-point housing stimulus plan](#) the association submitted in mid-October.

“Housing has always lifted the economy out of downturns, and it is imperative to get the housing market moving forward as quickly as possible,” said NAR President Richard F. Gaylord. “It is vital to the economy that Congress take specific actions to boost the confidence of potential homebuyers in the housing market and make it easier for qualified buyers to get safe and affordable mortgage loans.”