

Homebuyer tax credit repayments

In a quest to stimulate the housing market, Congress enacted three different versions of tax credits for homebuyers. Each has its own rules. Whether the tax credit must be repaid depends upon the purchase date of the home, as well as whether the home has since been sold at a profit.

Version 1. The original tax credit was for first-time homebuyers who purchased a principal residence between April 9, 2008 and December 31, 2008. “First time” was defined as not having owned a home for the three years prior to the purchase date. The credit was up to \$7,500. In general, this tax credit must be repaid to the IRS over a 15-year period. Taxpayers who claimed the maximum credit will have to add \$500 to their tax liability on their 2010 tax returns. They will use IRS Form 5405 to make their calculations. These homeowners must continue the repayment plan until the tax credit is fully repaid or the house is sold. At that point, they pay the lesser of the remaining credit or their gain on the sale. If the home is sold at a loss, the credit is forgiven.

Exceptions. Military families who have to sell a home to comply with an order for extended duty don’t have to repay the credit. When someone dies, the credit repayment obligation dies as well, it does not pass to the estate or heirs.

Version 2. First-time homebuyers who purchased from January 1, 2009 through April 30, 2010 were eligible for an \$8,000 credit. (The closing date was extended, first to June 30 and then to September 30, for purchases that were under contract by April 30.) The 15-year repayment rule does *not* apply to this credit. However, the credit is subject to recapture if the home is sold within three years of purchase. The amount of the recapture won’t be more than the gain on the sale of the home. In the current real estate market, that may not amount to much.

Version 3. Longtime homeowners became eligible for a \$6,500 credit for home purchases from November 7, 2009 through April 30, 2010. The closing date was later extended, matching that of Version 2. A longtime homeowner was defined as one who had owned and lived in a principal residence for at least five consecutive years during the eight-year period ending on the purchase date of the new home. As with Version 2, this credit is not subject to repayment unless the home is sold at a profit within three years of the purchase.

(November 2010)

© 2010 M.A. Co. All rights reserved.