

CAPITOL ♦ TITLE

IS IT TIME TO REPAY THE FIRST-TIME HOMEBUYER TAX CREDIT?

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The IRS has a reminder for homebuyers who took advantage of the first time homebuyer tax credit for purchases which were completed in 2008 – it's time to start repaying the credit.

Qualified taxpayers who bought homes to be used as a principal residence in 2008 using the first time homebuyer credit are required to start repaying the credit beginning with their 2010 tax returns. As you may recall, the credit to qualified buyers was equal to 10% of the purchase price of the principal residence, with a maximum credit for 2008 purchases of \$7500 (\$3750 for married individuals filing a separate return). The credit must be paid back over a 15 year period, beginning with their 2010 tax return. This means that anyone who took the maximum credit will have an additional tax liability of \$500 for 15 years, starting in 2010. If the taxpayer disposes of the principal residence for which the 2008 tax credit was allowed or ceases using it as a principal residence prior to the end of the 15 year recapture period, the remaining credit repayment is added to the income tax liability of the taxpayer for the year of sale or cessation of use. The increase in tax due to accelerated recapture (sale or cessation of use as principal residence prior to 15 year repayment) is limited to the amount of gain (if any) on such sale.

Oddly, due to a modification in the law which occurred in 2009, taxpayers who took the tax credit on purchases in 2009 and 2010 are not required to pay it back as long as they occupy their house as a principal residence for at least 36 months.

If you have questions or we can be of assistance to you or your clients in connection with this matter please contact one of our offices.

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