

## Can you claim home buyer tax credit?

By Sandra Block, USA TODAY  
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**If you bought a home last year, you may be eligible for a tax credit of up to \$8,000 when you file your 2010 tax return. But before you start shopping for hardwood floors, make sure you qualify. And even if you're eligible, you'll need to take extra steps to prove that your claim is legitimate.**

Congress first enacted a home buyer's tax credit in 2008 in an effort to revitalize the housing market. Since then, the credit has been revised and extended several times. Here are the factors that will determine your eligibility for the credit:

- When you signed the contract to buy your home. To claim the credit on your 2010 tax return, you must have signed a contract to purchase your primary residence before May 1, 2010.
- When you closed. Home buyers who closed as late as Sept. 30, 2010, qualify for the credit, as long as their original contract called for the purchase to be completed by June 30. Congress added the extension because many of last year's home purchases involved short sales or homes in foreclosure, and banks have been slow to process those transactions, says John W. Roth, analyst for tax publisher CCH.
- Where you lived before you bought the home. For homes purchased Nov. 7, 2009, to April 30, 2010, there are two tax credits: a first-time home buyer credit and a repeat home buyer credit.

The first-time home buyer credit is worth 10% of the purchase price of the home, up to a maximum of \$8,000. The law defines a first-time home buyer as someone who hasn't owned a principal residence in the three years before the purchase.

FROM THE IRS: First-time homebuyer credit for purchases made in 2009 and 2010

Q&A: Claiming the credit on your tax return

The repeat home buyer credit is worth up to 10% of the purchase price, up to a maximum of \$6,500. The law defines a repeat buyer as someone who has owned and lived in the same home for at least five consecutive years of the eight years. If you're married, both spouses must meet the residency test.

- How much you paid for the home. The first-time and repeat home buyer credits are limited to homes purchased for less than \$800,000.

- Your income. The full credit is available to taxpayers with a modified adjusted gross income of up to \$125,000, or \$225,000 for joint filers. (Those limits apply to homes purchased after Nov. 6, 2009; there are lower cutoffs for homes purchased before that date.) A reduced credit is available for home buyers with MAGI of up to \$145,000, or \$245,000 for married homeowners.

Payback time

Now comes the bad news for taxpayers who claimed the home buyer's credit in 2008. Starting this year, they'll have to pay it back.

That's because the original first-time home buyer's tax "credit" was in fact an interest-free loan that had to be paid in equal installments over 15 years. The law gave home buyers who claimed the credit a two-year grace period, which means the first installment is due this year. H&R Block estimates that more than 950,000 taxpayers claimed the credit in 2008.

The maximum 2008 "credit" was \$7,500, so if you claimed the full amount, you'll have to pay \$500 when you file your 2010 tax return, Roth says. "A lot of people will end up owing a fair amount of taxes this year because of the additional \$500 they'll have to repay," he says.

If you bought a house in 2008 then sold it, you could owe even more, because in that instance, you're required to repay the entire amount of the credit all at once.

Tax credits claimed for homes purchased in 2009 and 2010 don't have to be repaid, as long as the home remains your primary residence for three years. If you sell the home within 36 months after the purchase, you'll have to repay the credit. The repayment can't exceed the gain on the sale, so if you didn't make any profit on the sale, you may not owe anything.

**MORE FROM THE IRS: First-time homebuyer credit for purchases made in 2008**

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However, your "basis" for purposes of calculating the loss or gain on the sale is the amount you paid for the home minus your tax credit, says Kathy Pickering, executive director of H&R Block's Tax Institute. For example, if you bought your house for \$100,000 and claimed an \$8,000 first-time home buyer's credit, your basis is \$92,000.

Be prepared to wait

The IRS is requiring taxpayers who claim the home buyer's tax break to provide documents proving that they purchased a home within the required time frame. To meet that requirement, you must file your tax return by mail.

The IRS imposed the requirement to deter fraud. The Treasury Department's inspector general reported last year that thousands of individuals, including nearly 1,300 prison inmates, had fraudulently claimed the tax credit.

Documents you may need to include:

- A copy of your settlement statement. For most home buyers, that's the HUD-1 provided at closing. Sign the settlement statement, even if the document doesn't have a line for your signature.
- For newly constructed homes, a dated copy of the certificate of occupancy that shows your name and the address of the home.
- For repeat buyers, copies of documents showing that you lived in your previous residence for five consecutive years during the past eight years. Acceptable documents include mortgage interest statements, property tax records or homeowners insurance statements. You don't need to provide five years of the same documents, the IRS says. You can use a combination of documents to verify the years you were in the home.

Paper-filed returns take the IRS up to six weeks to process, vs. less than two weeks for e-filed returns. Returns that claim the credit may get extra scrutiny from the IRS, which could also delay your refund. "It's worth it to get the credit," Pickering says, "but people need to be patient."

**Courtesy of JB Goodwin**