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3425 Edison St NW • Uniontown, OH 44685
Office: 330.699.5731 Fax: 330.699.5732

TAX CREDIT OVERVIEW

Who Gets What?

First-Time Homebuyers (FTHBs): First-time homebuyers (that is, people who have not owned a home within the last three years) may be eligible for the tax credit. The credit for FTHBs is 10% of the purchase price of the home, with a maximum available credit of \$8,000. Single taxpayers and married couples filing a joint return may qualify for the full tax credit amount.

Current Owners: The tax credit program now gives those who already own a residence some additional reasons to move to a new home. This incentive comes in the form of a tax credit of up to \$6,500 for qualified purchasers who have owned and occupied a primary residence for a period of five consecutive years during the last eight years. Single taxpayers and married couples filing a joint return may qualify for the full tax credit amount.

What are the New Deadlines?

In order to qualify for the credit, all contracts need to be in effect no later than April 30, 2010 and close no later than June 30, 2010.

What are the Income Caps?

The amount of income someone can earn and qualify for the full amount of the credit has been increased. Single tax filers who earn up to \$125,000 are eligible for the total credit amount. Those who earn more than this cap can receive a partial credit. However, single filers who earn \$145,000 and above are ineligible. Joint filers who earn up to \$225,000 are eligible for the total credit amount. Those who earn more than this cap can receive a partial credit. However, joint filers who earn \$245,000 and above are ineligible.

What is the Maximum Purchase Price?

Qualifying buyers may purchase a property with a maximum sale price of \$800,000.

What is a Tax Credit?

A tax credit is a direct reduction in tax liability owed by an individual to the Internal Revenue Service (IRS). In the event no taxes are owed, the IRS will issue a check for the amount of the tax credit an individual is owed. Unlike the tax credit that existed in 2008, this credit does not require repayment unless the home, at any time in the first 36 months of ownership, is no longer an individual's primary residence.

How Much are First-Time Homebuyers (FTHB) Eligible to Receive?

An eligible homebuyer may request from the IRS a tax credit of up to \$8,000 or 10% of the purchase price for a home. If the amount of the home purchased is \$75,000, the maximum amount the credit can be is \$7,500. If the amount of the home purchased is \$100,000, the amount of the credit may not exceed \$8,000.

As Always, this is a Tax Ruling. Please consult a Tax Accountant for your scenario.

Who is Eligible for FTHB Tax Credit?

Anyone who has not owned a primary residence in the previous 36 months, prior to closing and the transfer of title, is eligible. This applies both to single taxpayers and married couples. In the case where there is a married couple, if either spouse has owned a primary residence in the last 36 months, neither would qualify. In the case where an individual has owned property that has not been a primary residence, such as a second home or investment property, that individual would be eligible. As mentioned above, the tax credit has been expanded so that existing homeowners who have owned and occupied a primary residence for a period of five consecutive years during the last eight years are now eligible for a tax credit of up to \$6,500.

How Much are Current Home Owners Eligible to Receive?

The tax credit program includes a tax credit of up to \$6,500 for qualified purchasers who have owned and occupied a primary residence for a period of five consecutive years during the last eight years.

Can Homebuyers Claim the Tax Credit in Advance of Purchasing a Property?

No. The IRS has recently begun prosecuting people who have claimed credits where a purchase had not taken place.

Can a Taxpayer Claim a Credit if the Property is Purchased from a Seller with Seller Financing and the Seller Retains Title to the Property?

Yes. In situations where the buyer purchases the property, even though the seller retains legal title, the taxpayer may file for the credit. Some examples of this would include a land contract or a contract for deed. According to the IRS, factors that would demonstrate the ownership of the property would include:

1. Right of possession;
2. Right to obtain legal title upon full payment of the purchase price;
3. Right to construct improvements;
4. Obligation to pay property taxes;
5. Risk of loss;
6. Responsibility to insure the property; and
7. Duty to maintain the property.

Are There Other Restrictions to Taking the FTHB Credit?

Yes. According to the IRS, if any of the following describe a homebuyer's situation, a credit would not be due:

- They buy the home from a **close** relative. This includes a spouse, parent, grandparent, child or grandchild. *(Please see the question below for details regarding purchases from "step-relatives.").*
- They do not use the home as your principal residence.
- They sell their home before the end of the year.
- They are a nonresident alien.
- They are, or were, eligible to claim the District of Columbia first-time homebuyer credit for any taxable year. (This does not apply for a home purchased in 2009.)
- Their home financing comes from tax-exempt mortgage revenue bonds. (This does not apply for a home purchased in 2009.)
- They owned a principal residence at any time during the three years prior to the date of purchase of your new home. For example, if you bought a home on July 1, 2008, you cannot take the credit for that home if you owned, or had an ownership interest in, another principal residence at any time from July 2, 2005, through July 1, 2008.

Can Homebuyers Purchase a Home from a Step-Relative and Still be Eligible for the Credit?

Yes. As long as the person they buy the home from is not a direct blood relative, the purchase would be allowed.

If a Parent (Who Will Not Live In the Property) Cosigns for a Mortgage, Will Their Child Still be Eligible for the Credit?

Yes, provided that the child meets the other requirements for the tax credit.