



1ST TIME HOME BUYER TAX CREDIT - 2008

Qualified homebuyers may be eligible for a US Government sponsored tax credit up to \$7,500 for the purchase of a new home.

For first-time homebuyers, 2008 is a chance to get your hands on up to \$7,500 via a tax credit approved by Congress last year. However, it is not a way to get a down payment for a house, or to pay closing costs, or any other housing cost in advance of its purchase. It does offer a stimulus for people who want to buy a home. The tax credit is actually a 15-year interest free loan with repayment beginning the second tax year after the year the credit is claimed.

What Homes Qualify? Any HUD code or Modular home purchased by an eligible first-time homebuyer will qualify for the credit, provided that the home will be used as a principal residence and the buyer has not owned a home in the previous three years.

“First-Timers” Defined. An individual who has not had an ownership interest in a principal residence in the previous three years. Individuals may qualify for the tax credit even if they own a rental or vacation home as long as those properties were not their principal residence for at least three years preceding the purchase of their new home.

It's Temporary. The tax credit applies to those who buy after April 9, 2008, and before July 1, 2009.

Amount of The Homebuyer Tax Credit. The tax credit is for 10 percent of the purchase price of a home, up to a maximum credit of \$7,500. If a home cost \$65,000, the allowable credit would be \$6,500. If a home cost \$250,000, the allowable credit would be \$7,500. The amount of the credit is the same for all taxpayers, married or single.

It's Not a Deduction. According to the IRS, unlike a tax deduction, the tax credit comes right off the federal income tax you owe. If, for example, you had \$3,000 withheld from your paycheck for federal income taxes in 2007, but you actually owe only \$2,500, you would normally be due a \$500 refund. With the tax credit, your refund would climb from \$500 + \$7,500 = \$8,000.



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When to Claim the Credit. For homes purchased in 2008, the IRS will allow the homebuyer to file an amended 2008 return to claim the credit.

You Will Have To Pay Back The Credit. The tax credit is a no-interest loan that must be repaid beginning in two years after the tax claim is claimed at roughly \$500 a year for 15 years for a \$7,500 tax credit. Individuals who claim a credit of less than \$7,500 will also have a 15-year no interest repayment period and will pay 6.67% of their credit each year. For example, an individual who claims a credit of \$6,000 will repay \$400.20 a year ($\$6,000 \times .0667$). Homebuyers who sell their home before the credit is repaid must pay off the loan. If they sell the home at a loss, the loan is forgiven. If the person who utilized the credit dies before the full credit amount has been repaid, then any balance that remains unpaid is disregarded.

Income Limits Do Apply. According to the IRS, a single person cannot have a modified adjusted gross income, or MAGI, of more than \$75,000 a year. The figure for a married couple is no more than \$150,000. MAGI is different from adjusted gross income. Adjusted gross income is your income after certain deductions such as a contribution to an IRA or a health savings account, a student loan interest deduction and payment of alimony. Those deductions do not include the ones itemized from Schedule A. To find your modified adjusted gross income, or MAGI, you take your adjusted gross income and add back in certain deductions such as foreign income, foreign-housing deductions, student-loan deductions, IRA-contribution deductions and deductions for higher-education costs.

West Penn Mortgage has multiple sources and resources to help people with this process. Please direct all questions to West Penn Mortgage via email at wpmortgage@comcast.net or call 724.567.5599 today.