

NAR Frequently Asked Questions Homebuyer Tax Credit Changes



National Association of REALTORS® Government Affairs Division
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Here are some of the most frequently asked questions on the changes to the Homebuyer Tax Credit

Question: Existing homeowner credit: Must the new house cost more than the old house?

Answer: *No. Thus, for example, individuals who move from a high cost area to a lower cost area who meet all eligibility requirements will qualify for the \$6500 credit.*

Question: I am an existing homeowner. On October 25, 2009, I signed a contract to purchase a new home. I have lived in my current home for more than 5 consecutive years and am within the new income limits. I will go to settlement on November 20. If President Obama has signed the bill by the time I go to settlement, will I qualify for the new \$6500 tax credit?

Answer: *Yes. The existing homeowner credit goes into effect for purchases after the date of enactment (when the bill is signed). There is no reference to the date of contract for the new credit. The provision looks solely to the date of purchase, which is generally the date of settlement.*

Question: I am a first-time homebuyer but was not within the prior income limits at the time I entered into my contract to purchase on October 30, 2009. I will be covered, however, by the new income limits. If the new rules have been signed into law by the time I go to settlement, will I be eligible for a credit?

Answer: *Yes. The new income limitations go into effect as soon as the President has signed the bill. The income limit and other eligibility rules will look to your status as of the date of purchase, which is the settlement date. So if the new rules have been signed when you go to settlement, you should be eligible for the credit (or a portion of the credit if you're within the phase-out range).*

Question: I am an eligible existing homeowner. I have a fair amount of equity in my home. I have found a home with a non-negotiable price of \$825,000. Will I be able to use any of the \$6500 tax credit?

Answer: *No. The \$800,000 cap on the cost of the purchased home is firm at \$800,000. Any amount above \$800,000 makes the home ineligible for any portion of the credit. The \$800,000 is an absolute ceiling.*

Question: I owned my home for 10 years, but sold it two years ago year and have been renting since. If I purchase a home, will I be eligible for the \$6500 tax credit if I meet all the other eligibility tests?

Answer: *Yes. Because you lived in the home for more than 5 consecutive years of the previous 8, you will qualify for the \$6500 credit. For example, Say John and his wife bought a home in 2000 and lived there until 2008 when he got a divorce. Whether John has been renting or bought in the interim, he WOULD INDEED be eligible for the credit because he owned a home and occupied it as his principal residence for 5 consecutive years out of the last 8 years. The keyword here is "consecutive." As long as he lived in that house for 5 years straight what he did since 3 years doesn't impact eligibility.*

Question: I am an eligible first-time homebuyer. I entered into a contract to purchase on November 1, 2009. Do I have to go to closing before December 1? How does the extension date affect me?

Answer: *You do not have to close before December 1. Once the legislation has been signed, it will be as if the Nov 30 date had never existed. Therefore, so long as the contract settles before April 30 (or July 1, worst case), the purchaser will be eligible for the credit.*

FOR IMMEDIATE RELEASE

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More Homebuyers Qualify for Tax Credit

Ann Arbor, MI November 6, 2009 – Congress just passed an expanded version of the \$8,000 first time home buyer tax credit that was set to expire on November 30. “The new version of the tax credit has the potential to stimulate the housing market even more than the old version due to the fact that more people will qualify under the new rules,” said Gibran Nicholas, Chairman of the CMPS Institute, an organization that certifies mortgage bankers and brokers. “Although the tax credit remains at \$8,000 for home buyers that have not owned a primary residence in the last three years, it has been expanded to include a \$6,500 tax credit for home buyers that have lived in their current primary residence for at least five consecutive years out of the past eight years. Under the old rules, move-up home buyers did not qualify.” Consider these three examples:

Example 1:

Jane purchased a home in 2002, lived there for 5 years as her primary home, moved out in 2007, and turned that home into a rental property. If Jane decides to buy a new primary residence today, she would qualify for the \$6,500 tax credit based on the fact that she lived in the same residence as her primary home for at least five consecutive years out of the past eight.

Example 2:

Harry purchased a home in 2004, and lived there for the past 5 years as his primary home. If Harry decides to buy a new primary residence today, he would qualify for the \$6,500 tax credit based on the fact that he lived in the same residence as his primary home for at least five consecutive years out of the past eight.

Example 3:

Nicole purchased a home in 2006, and lived there for the past 3 years as her primary home. If Nicole decides to buy a new primary residence today, she would not qualify for the \$6,500 tax credit based on the fact that she did not live in the same residence as her primary home for at least five consecutive years out of the past eight.

The tax credit applies to homes purchased for less than \$800,000 before May 1, 2010. “If you sign a binding contract to purchase a home before May 1st, you would need to close on the transaction before July 1, 2010,” Nicholas said. “It works kind of like a gift certificate that can be redeemed for cash. You simply file a form with the IRS right after you buy your home, and the IRS will send you a check for the full amount of your credit.”

The income limitation for single tax payers went up from \$75,000 under the old rules to \$125,000 under the new rules. For married tax payers, the income limitation went up from \$150,000 to \$225,000. "This means that more people will qualify for the credit – especially in parts of the country with higher costs of living," Nicholas said. "This should help stimulate parts of the housing market that may not have been impacted by the old version of the credit."

There are many creative ways of structuring your home purchase transaction in ways that maximize the benefits of the credit. Here are a few examples:

- The credit applies to 1-4 unit homes as long as you live in one of the units as your primary residence – you could live in one unit and rent out the others
- If two unmarried individuals buy a home, and only one of the individuals qualifies for the credit based on their income or past home ownership status, the individual who qualifies for the credit can claim the full credit. (Note: In the case of married couples, both spouses must qualify for the credit.)
- The credit applies even if you have co-signers on your mortgage loan

Home buyers who work with a Certified Mortgage Planning Specialist are much better equipped to save money and navigate the complexities of the tax credit. To find a certified professional near you, please visit www.CMPSInstitute.org

About CMPS Institute: CMPS is a training, examination, certification and ongoing membership program for financial professionals who provide mortgage and real estate equity advice. Recognized for its preeminence within the industry, the CMPS curriculum represents the core knowledge expected of residential mortgage advisors regardless of the diversity of specializations within the industry. Over 5,500 financial professionals have gone through the program since its launch in 2005. For more information or to find a certified professional near you, please visit www.CMPSInstitute.org or call 888.608.9800.

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Harry purchased a home in 2004, and lived there for the past 5 years as his primary home. If Harry decides to buy a new primary residence today, he would qualify for the \$6,500 tax credit based on the fact that he lived in the same residence as his primary home for at least five consecutive years out of the past eight.

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About CMPS Institute: CMPS is a training, examination, certification and ongoing membership program for financial professionals who provide mortgage and real estate equity advice. Recognized for its preeminence within the industry, the CMPS curriculum represents the core knowledge expected of residential mortgage advisors regardless of the diversity of specializations within the industry. Over 5,500 financial professionals have gone through the program since its launch in 2005. For more information or to find a certified professional near you, please visit www.CMPSInstitute.org or call 888.608.9800.

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