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Summary of the New Housing Tax Credit

As part of the American Recovery and Reinvestment Act of 2009, a.k.a. the Stimulus Bill, first time home owners are now eligible for a tax credit of \$8,000. The following summarizes the eligibility requirements of this credit:

Timing – Home owners who purchase their house between January 1, 2009 and December 1, 2009 are eligible for the credit.

First time home buyer – The law states that the credit is available to first time home buyers. However, the law is a bit more flexible and allows anyone who has not owned a home for three years to qualify. For example, if you sold your home on May 24, 2006, you will have to close on your new home subsequent to May 24, 2009 to qualify. The closing date in this situation would make a significant difference on your wallet.

Claiming the credit – You will receive the tax credit when you file your individual tax return. As part of this filing, you will need to complete Form 5405 which determines the amount of credit you will receive. The credit can be claimed on either your 2008 or 2009 tax return. If you already filed your 2008 tax return, you can amend the return to obtain the credit.

Credit vs. deduction – Everyone should understand that this is a credit to the tax payer, not a deduction. A tax credit is a dollar for dollar benefit to the tax payer. So a first time home buyer should be \$8,000 wealthier as a result of this credit. A deduction merely decreases your taxable income. Furthermore, this tax credit does not have to be repaid to the government like the “credit” available to first time home buyers in 2008.

Credit limits – The credit shall be equal to 10% of the purchase price of the home, not to exceed \$8,000. Since the median home and condominium price in Massachusetts is significantly more than \$80,000, most will receive the full \$8,000 credit.

Income limits - Single taxpayers with incomes up to \$75,000 and couples with income of up to \$150,000 qualify for the full credit.

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