

ENTER THE MAZE OF TAX CREDIT RULES

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If you're thinking about applying for the new \$6,500 federal tax credit for repeat home buyers or the extended \$8,000 version for first-time buyers, here's some news: The IRS has just issued its first formal guidelines for you.

Tops on the agency's list of advice? Cool it for a couple of weeks. Even if you qualify for one of the credits, don't send in any requests to the Internal Revenue Service quite yet. Wait until later this month, when the agency publishes its revised Form 5405 with all the key instructions needed to get you a check from the government.

The forthcoming version of the form will incorporate the major changes to the tax credit program made by Congress in legislation signed by President Obama last month. These include expanded income limits, a cap on home prices, additional documentation requirements and prohibitions against claims by dependents, among others.

In a tax bulletin issued just before Thanksgiving, the IRS emphasized that all home purchasers after Nov. 6 "must use this new version [of Form 5405] to claim the credit." Put another way: If you send in the old version – which happens to be the one you can currently download from the agency's Web site, IRS.gov – your request for the credit is likely to go nowhere.

The legislation – known as the Worker, Homeownership and Business Assistance Act of 2009 – extended the \$8,000 first-time-buyer credit until April 30 for signed contracts and June 30 for closings. The law also created a new tax credit for people who have owned a principal residence for a consecutive five of the previous eight years and who purchase a replacement principal residence with a signed contract no later than next April 30, followed by a closing no later than June 30.

Qualified repeat buyers can get credits up to \$6,500. For both the first-time and repeat buyer programs, the credit is equal to 10 percent of the purchase price of the house, up to a maximum of either \$6,500 or \$8,000.

The new IRS bulletin also outlined the agency's guidance on other important features of the amended credit program:

--Members of the armed forces, plus diplomatic and intelligence personnel who are in service in foreign countries, will get an extra year to buy a principal residence and still qualify for a credit. They will have until April 30, 2011, to enter into a binding contract to purchase a house and until June 30, 2011, to close on it.

--Anyone who buys a house after Nov. 6 – even those who had intended to get in the door before the previous Nov. 30 expiration date for the \$8,000 credit – will now need to comply with several new rules. First, the house cannot cost more than \$800,000. Second, no one under 18 can claim the credit, no matter what the circumstances. And finally, anyone who is counted as a dependent on another taxpayer's federal filings is ineligible for the credit.

--The expanded income limits for purchasers after No. 6 range to \$125,000 in “modified adjusted gross income” for single taxpayers and to \$225,000 for those filing jointly. Singles with incomes between \$125,000 and \$145,000 may be eligible for phased-down credit amounts, as are joint filers with incomes from \$225,000 to \$245,000. Anyone with an income above these amounts cannot qualify for either of the credits. Under the pre-Nov. 6 rules, by comparison, taxpayers applying for the \$8,000 credit were limited to income of \$75,000 (single filer) or \$150,000 (joint filers).

The IRS continues to offer detailed consumer information on the credits, including Q&As on a variety of home-purchase scenarios.

For example, some taxpayers seeking the extended \$8,000 credit are uncertain about co-purchase and co-signing situations, especially involving parents and adult children. When a homeowner parent co-signs for a mortgage with a son or daughter and both names appear on the note, can the son or daughter qualify for the first-time purchaser credit?

The IRS says the parent clearly does not qualify for any portion of the credit because he or she already owns a principal residence. But if the son or daughter has not owned a house during the three years preceding the purchase and qualifies on income, he or she can be allocated the entire \$8,000.

Similarly, when unmarried individuals co-purchase a house and only one of them is eligible for the credit, the full \$8,000 can be allocated to the eligible buyer. The ineligible co-purchaser, in other words, does not spoil the deal – as long as none of the credit goes to that person.