

Federal Home Purchase Tax Credit

To jump-start housing sales and clear out unsold real estate inventories, the federal government is offering a tax credit to incentivize new purchasers that is similar to an interest-free loan. Anyone buying a house between April 9, 2008 and June 30, 2009 is eligible for a \$7,500 tax credit. This new home purchase tax credit is refundable, meaning that if a homebuyer's tax bill is less than the credit amount, the government will refund the homebuyer that amount.

The value of the credit is 10 percent of the purchase price of the property up to a maximum of \$7,500. If your adjusted gross income exceeds \$150,000 (\$75,000 for singles), the credit maximum begins to phase down in increments for homebuyers with an adjusted gross income of \$75,000 or more (\$150,000 or more for married couples filing jointly). A homebuyer cannot claim the credit if she is a nonresident alien, financed the property using a state or local housing agency tax-exempt bond mortgage, or does not plan to use the house as her principal residence. Because this credit cannot be used if the home is financed using a state or local housing agency tax-exempt bond mortgage, the tax credit cannot be used in conjunction with the City of Chicago's TaxSmart program.

Unlike some tax credit programs, this one requires beneficiaries to repay the credit over an extended period of years. Starting in the second tax year after purchase and continuing for up to 15 years, taxpayers are expected to make pro-rata repayments to the government on their federal filings. Over a 15-year payback period for the full \$7,500 credit, the cost would be \$500 a year. At its core, the new tax credit functions very much like an interest-free loan for up to \$7,500. The homebuyer pays back the principal in increments over time, but there's no interest charge.

All developments are eligible for this incentive. Homebuyers can claim the credit on their 2008 federal tax return. For more information, go to www.federalhousingtaxcredit.com.