

Federal Tax Report

Congress Improves Homebuyer Tax Credit

The centerpiece of the tax section of the stimulus package was the first-time homebuyer tax credit. After considerable and stressful negotiations, the tax-writers who negotiated the final package were able to make only modest improvements to the rules enacted in 2008. Most of the mechanics of the credit will be the same as under the 2008 rules: the credit will be claimed on a tax return to reduce the purchaser's income tax liability. If any credit amount remains unused, then the unused amount will be refunded as a check to the purchaser. In brief, these are the changes made:

- The credit amount is increased from \$7500 to \$8000.
- The credit continues to apply only to first-time homebuyers.
- Changes are effective for purchases on or after Jan 1, 2009 and before Dec 1, 2009.
- 2009 purchasers can make an election to claim the credit on their 2008 tax return.
- The credit is refundable. The amount of the refund is computed as part of the 1040 tax return filing.
- The unpopular repayment feature of the 2008 version is eliminated for 2009 purchasers. Unfortunately, eligible 2008 purchasers will still be required to repay the credit.
- While the repayment is eliminated for 2009, any credit that is taken for 2009 will be recaptured and paid to the IRS from sales proceeds if the residence is sold within three years of the date of purchase.
- DC homebuyers are eligible for the \$8000 credit (In 2008, DC homebuyers had a separate, nonrepayable \$5000 tax credit available to them that had already been in effect for several years.)
- Purchasers who finance their 2009 purchases with funds from a state/local housing bond authority will be eligible for credit.

A link is provided below to a chart that compares the 2008 and 2009 versions of the credit. A link is also being prepared with a Q&A to further explain the credit. It will be posted as soon as it has been completed.

After NAR's 2008 Annual Meeting in Orlando, our message on the tax credit had three parts: eliminate the repayment feature, extend the credit past its June 30 expiration to the end of 2009 and extend the credit to all purchasers. The House version of the tax package eliminated the repayment feature, but for 2009 purchases only. Neither the date extension nor the expansion to all buyers was included. Then, when Senator Johnny Isakson (R-GA) successfully offered an amendment to increase the credit to \$15,000, expectations and hopes were heightened considerably.

Unfortunately, when it was time for House and Senate conferees to reconcile the very different tax packages each body had passed, many provisions affecting many industries fell by the wayside. In the end, the size of the stimulus package and its balance of spending and tax cuts were sharply reduced from the bills that had passed in both bodies. Those differences were as follows:

Size of entire tax package:

- As passed the House: \$296.3 B (36% of total H.R. 1 package)

- As reported from Senate Finance Committee: \$325 B
- As passed the Senate (Collins-Nelson): \$385.3 B (45% of total H.R. 1 package)

Size of final tax package: \$276 B (35% of total H.R. 1 agreement)

While the tax package did not require any "pay fors," it was nonetheless necessary to provide revenue scores for the package so that Congress could keep within the set boundaries. They were particularly concerned, as well, that the burden of the cuts and discarded provisions did not fall disproportionately on any particular industry. In the end, there simply was not enough revenue to go around.

[Chart comparing the 2008 and 2009 versions of the credit](#)