

CLIENT REPORT:

2009 Worker Act: Enhanced First-Time Homebuyer Credit

Dear Client:

The Worker, Homeownership, and Business Assistance Act of 2009 (2009 Worker Act) extends the first-time homebuyer credit (FTHBC) to qualified purchases before May 1, 2010, and provides several other enhancements and modifications.

Background. The first-time homebuyer credit was created by the Housing Assistance Tax Act of 2008 for first-time homebuyers who purchase a principal residence in the United States after April 8, 2008, and before July 1, 2009, and who did not have an ownership interest in a principal residence in the prior three years. For qualifying purchases during this specified timeframe, the refundable FTHBC is equal to 10 percent of the purchase price of the home, up to a maximum credit of \$7,500 (\$3,750 for married separate filers).

The credit was increased to a maximum of \$8,000 (\$4,000 for married separate filers) and extended through November 30, 2009 by the American Recovery and Reinvestment Act of 2009 (2009 Recovery Act) for purchases made after December 31, 2008. The 2009 Recovery Act also waived the recapture rules for homes used as a principal residence for at least 36 months after the purchase.

Extension. Under the 2009 Worker Act, the FTHBC as extended can be claimed for qualified purchases after April 8, 2008, and before May 1, 2010. This extension also applies if you enter into a written binding contract before May 1, 2010 and close on the qualified purchase before July 1, 2010.

Long-time residents of same principal residence. The 2009 Worker Act provides a reduced refundable FTHBC of \$6,500 (\$3,250 for married separate filers) for the purchase of a new home if you owned and used your current home as a principal residence for five consecutive years during the eight-year period ending on the date you purchase a new principal residence.

Limitations. Under the 2009 Worker Act, the first-time homebuyer credit is not permitted with respect to a purchase:

- for a personal residence with a purchase price exceeding \$800,000;
- if you are under 18 years of age (if married, at least one spouse must meet the age requirement);
- if you can be claimed as a dependent of another taxpayer; and
- for property acquired from your spouse.

Military families. The first-time homebuyer credit can be claimed for qualified purchases before May 1, 2011 if you (or your spouse) serve on "qualified official extended duty service" outside of the United States for at least 90 days during the period beginning after December 31, 2008 and ending before May 1, 2010. If you enter into a written binding contract before May 1, 2011, you can claim the FTHBC if you close on the purchase of your personal residence before July 1, 2011. In addition, the recapture rules do not apply if you sell your home, or stop using it as your personal residence, due to government orders received for "qualified official extended duty service."

Other modifications. The following modifications are also provided by the 2009 Worker Act:

- The modified adjusted gross income phase-out limitations for the FTHBC have been increased.
- The FTHBC can be claimed on the prior year's tax return for purchases after December 31, 2008.
- In order to claim the FTHBC, you must attach to your tax return a properly executed copy of your settlement statement for the qualifying purchase.

- The waiver of the FTHBC recapture is extended through 2010 if you use your home as a principal residence for at least 36 months after the purchase.

Effective date. The first-time homebuyer credit extensions and modifications provided by the 2009 Worker Act generally apply to residences purchased after November 30, 2009, but in some instances apply to residences purchased after the date of enactment.

If you have recently purchased a home, or plan a home purchase in the near future, we would like to review the pertinent details as soon as possible. Please call our office at your earliest convenience to arrange an appointment.

Sincerely yours,

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