

# The Worker, Homeownership and Business Assistance Act of 2009

On November 6, 2009 President Obama signed The Worker, Homeownership, and Business Assistance Act of 2009 into law.

The law authorizes a tax credit of up to \$8,000 for qualified first-time home buyers and up to \$6,500 for qualified “long-time resident” purchasing a principal residence on or after November 6, 2009 and before April 30, 2010.

For your guidance, the following questions and answers should better inform you of the provisions in this tax credit. However, we urge you to contact a professional tax consultant for a fuller explanation of any of the particular provisions.

## **Who is eligible to claim the tax credit?**

First-time home buyers purchasing a principal residence - either new or resale - are eligible for a tax credit of up to \$8,000. “Long-term residents” purchasing a principal residence - either new or resale - are eligible for a tax credit of up to \$6,500.

To qualify for the tax credit, a home purchase must occur on or after November 6, 2009 and before April 30, 2010. For the purposes of the tax credit, the buyer must enter into a binding contract by April 30, 2010; the buyer has until June 30, 2010, to settle on the purchase. The tax credit will be administered through the Internal Revenue Service (IRS).

## **What is the definition of a first-time home buyer?**

The law defines “first-time home buyer” as a buyer who has not owned a principal residence during the three-year period prior to the purchase. For married taxpayers, the law reviews the homeownership history of both the home buyer and his/her spouse.

## **What is the definition of a long-time resident?**

The law defines “long-time residents” as a buyer that has owned and used the same home as a principal or primary residence for at least five consecutive years of the eight-year period ending on the date of purchase of a new home as a primary residence. For married taxpayers, the law reviews the homeownership history of both the home buyer and his/her spouse.

## **Are there any additional restrictions?**

- .. Dependants are not eligible to claim the credit.
- .. No credit is available if the purchase price of a home is more than \$800,000.
- .. A purchaser must be at least 18 years of age on the date of purchase. For a married couple, only one spouse must meet this age requirement.

## **Does this tax credit apply to manufactured and modular homes?**

Any home that will be used as a principal residence will qualify for the credit including manufactured homes, modular homes, site-built homes, even houseboats! This also includes homes placed on private land or in a land-lease community, a condominium, or a cooperative. Homes financed using a personal property loan are eligible.

## **How is the amount of the tax credit determined?**

The tax credit is equal to 10 percent of the home’s purchase price up to a maximum of \$8,000. No tax credit is available if the purchase price of the home exceeds \$800,000.

**What exactly is a tax credit?** A tax credit is a dollar-for-dollar reduction in what the taxpayer owes.

So a taxpayer who owes \$8,000 in income taxes and who receives an \$8,000 tax credit would owe nothing to the IRS.

## **What does it mean that the credit is “refundable”?**

The fact that the credit is refundable means that the home buyer credit can be claimed even if the taxpayer has little or no federal income tax liability to offset. Typically this involves the government sending the taxpayer a check for a portion or even the entire amount of the refundable tax credit.

For example, if a qualified home buyer expected, notwithstanding the tax credit, a federal income tax liability of \$6,000 and had tax with holdings of \$5,000 for the year, then without the tax credit the taxpayer would owe the IRS \$1,000 on April 15th. Suppose now that the taxpayer qualified for the full \$8,000 home buyer tax credit. As a result, the taxpayer would actually receive a check for \$7,000 (\$8,000 minus the \$1,000 owed.)

## **How is this home buyer tax credit different from the previous tax credits that Congress enacted in 2008 and 2009?**

For principal residences purchased:  
From 11/6/09 through 4/30/10 - credit is up to \$8,000 for first-time buyers and \$6,500 for long-time residents and the credit does not need to be paid back\*. Buyers must attach documentation of purchase to their tax return.

From 1/1/09 through 11/5/09 - credit is up to \$8,000 and the credit does not need to be paid back\*. (\*If the home ceases to be your principal residence within the 36 month period, beginning on

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the purchase date, you will be required to return a portion of the tax credit amount.)

## What are the income limits for individuals claiming the tax credit?

1) For single-taxpayers with a modified adjusted gross income (MAGI), as defined by the IRS, under \$125,000 or married taxpayers filing a joint return with a MAGI under \$225,000, the full tax credit amount is available.

2) For single-taxpayers with a MAGI between \$125,000 and \$145,000 or married taxpayers filing a joint return with a MAGI over \$225,000 and \$245,000, the credit is reduced proportionally using a phase-out.

NOTE: For single-taxpayers with a MAGI of more than \$145,000 or married taxpayers filing a joint return with a MAGI over \$245,000, the tax credit is not available.

Homebuyers should consult with tax professionals to calculate the exact amount they are eligible to receive.

## How do homebuyers claim the tax credit?

A taxpayer who purchases a home after Nov. 6 must use the new version of Form 5405 to claim the credit. Likewise, taxpayers claiming the credit on their 2009 returns, no matter when the house was purchased, must also use the new version of Form 5405. Taxpayers who claim the credit on their 2009 tax return will not be able to file electronically; but instead, will need to file a paper return.

A taxpayer who purchased a home on or before November 6, 2009 and chooses to claim the credit on an original or amended 2008 return may continue to use the current version of Form 5405.

## Is there any way for a home buyer to access the money allocable to the credit sooner than waiting to file their 2009 tax return?

For qualifying purchases in 2010, taxpayers have the option of claiming the credit on either their 2009 or 2010 return.

Yes. Prospective home buyers who believe they qualify for the tax credit are permitted to reduce their tax withholding. Reducing tax withholding (up to the amount of the credit) will enable the buyer to accumulate cash by raising his/her take home pay. This money can then be applied to the down-payment.

## Can someone who is not a U.S. citizen claim the tax credit?

Anyone who is not a non-resident alien (as defined by the IRS), who has not owned a principal residence in the previous three years and who meets the income limits test may claim the tax credit for a qualified home purchase. The IRS provides a definition of “nonresident alien” in IRS Publication 519.

## NOTE: Members of the Military:

Members of the Armed Forces and certain federal employees serving outside the United States. have an extra year to buy a principal residence in the United States and still qualify for the credit. An eligible taxpayer must buy or enter into a binding contract to buy a home by April 30, 2011, and settle on the purchase by June 30, 2011.



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