

In response to the housing crisis in 2007 and 2008, several bills in the 110<sup>th</sup> Congress proposed tax credits as a means of encouraging taxpayers to purchase a principal residence. The bills differed in some ways and were similar in others. Each required taxpayers to use the new property as their principal residence.

The Housing Assistance Tax Act of 2008, part of the Housing and Economic Recovery Act of 2008, created a refundable tax credit for first-time homebuyers purchasing a principal residence after April 8, 2008, and before July 1, 2009. The American Recovery and Reinvestment Act of 2009 modified the credit for taxpayers purchasing homes after December 31, 2008, and extended it to include purchases through November 30, 2009.

First-time homebuyers generally include individuals who have not had a present interest in a principal residence within three years before buying the new property. The credit is based on 10% of the purchase price of the principal residence, but may not exceed \$7,500 for residences purchased in 2008 or as much as \$8,000 for those residences purchased between January 1, 2009 and through November 30, 2009.

The credit is refundable, but must be repaid if based on a 2008 purchase. Therefore, for these credits, it is similar to an interest-free loan. The payback period is fifteen years, but does not begin until two years after the purchase. However, if the taxpayer sells the property or ceases to use it as a principal residence, the entire outstanding credit generally becomes due for that tax year. Repayment of the credit may be waived under certain circumstances.

Repayment generally is not required for credits that are based on a 2009 purchase, however, there are certain circumstances where the credit may have to be repaid.

The tax rules relating to each of the bills passed by the 110<sup>th</sup> Congress are quite complicated. If you are thinking of purchasing a home within the next few months or have already purchased a home within the time frames listed above, please feel free to contact us to discuss the matter and the different credits that may be available to you.