



April 7, 2011

## First Time Homebuyer Credit Problem for IRS

Did you realize that if you had taken up the government's first-time homebuyer credit which paid you up to \$7,500, you need to repay the amount over 15 years? And your repayment needs to be reflected in your tax return that is due this April 18. The original first time home buyer credit under the Housing and Economic Recovery Act was therefore more an interest-free loan rather than a tax credit. Home buyers took advantage of the Act and could claim 10% of the purchase price of their house up to \$7,500. If you are a married taxpayer filing separately, you could claim up to \$3,750 in credit and unmarried taxpayers who purchased a house were allowed to share the credit between them.

It is now time to repay your loan. You are allowed up to 15 years to repay your loan in equal installments therefore if you had taken the full \$7,500 credit, your repayment would be \$500 a year starting this year. The original first-time homebuyer credit was for houses bought after April 8, 2008 and before January 1, 2009. Then the government decided to offer a second credit for houses purchased between January 1, 2009 and April 30, 2010. If you had already signed a sales agreement by April 30, you were given up to September 30 to complete the sale and still qualify for the credit which was worth \$8,000. A third credit was created for long-term homeowners who bought a new or existing house between November 7, 2009 and April 30, 2010 that amounted to \$6,500. If you took advantage of the \$8,000 or \$6,500 credit but either sold your home or no longer lived in it as your primary residence within 3 years of purchase, you need to repay the credit. There's another feature of the \$8,000 and \$6,500 credits. If the property is sold before the residency stipulation is met, and the gain is less than the credit, buyers only have to repay up to the amount of the gain.

Similarly, if you claimed the \$7,500 credit and sold your house before

repaying the loan in full, the balance of the loan becomes immediately payable upon the sale of your house.

With such complicated conditions, it is little wonder that the IRS is having problems processing the returns that claimed the credits. The agency said it had some glitches that have primarily affected refunds for married couples filing joint returns. The IRS had to pull the returns of this group of taxpayers who submitted them before February 22 and process them manually. This has delayed refunds.

The slowdown in processing has also affected those who claimed the \$7,500 credit and want to repay more than the stipulated annual amount. If your refund has been delayed, you can check its status by going to the IRS website at [www.irs.gov](http://www.irs.gov) and click on 'Where's my Refund?'