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Home Buyer Credit Repayments Pose Problems to IRS

According to a recent report by the Tax Inspector General for Tax Administration (TIGTA), the IRS is having trouble identifying which house purchaser should repay their First Time Homebuyer Credit (FTHC). The FTHC was passed as part of the government's incentive program in 2008 to revive the ailing housing industry. The legislation was revised and improved over the next two years to curb abuse and further define it.

In essence, the FTHC allows house buyers to claim a refund if the amount of credit exceeded the amount of taxes the house buyers have to pay. This rule is applicable to first time house buyers, regardless of whether any income tax has been withheld or paid. Each of the laws with the FTHC provisions contains different credit amounts, qualification requirements, and repayment requirements.

Generally, if you received the FTHC for buying a house in 2008, you are required to repay the credit over fifteen years starting from 2010. Besides that, if you bought your home in 2008, 2009 or 2010 and either sold it or it ceased to be your primary residence within three years from the date of your purchase and after the year you received the FTHC, then you must repay the entire amount received. If you sold your home, the repayment is applicable to the extent that you made a profit from the sale.

The TIGTA report states that the IRS correctly sent out 5.2 million notices to first time home buyers informing them to repay the credit. But at the same time, it omitted to send out or sent erroneous notices to more than 61,400 households due to notice programming errors or incorrect information on tax accounts.

Some examples of the errors are:

- House buyers who bought their homes in 2009 receiving notices to repay when only those bought in 2008 are obligated to repay the FTHC. Such notices totaled 27,700 in number.
- House buyers did not receive any notices to repay their FTHC when they should have because their homes were bought in 2008. There were 18,220 such omissions.
- 12,500 house buyers were notified that they did not have to repay their FTHC when in fact, they do.
- 53,500 house buyers were wrongly notified that they had a payment obligation because of wrong information provided by the vendor engaged by the IRS who used third party information to track sales of house buyers' principle residences.

The TIGTA made three recommendations:

1. That the IRS ensures that FTHC repayment notices are accurately issued,
2. That the IRS rectify wrong purchase dates on tax accounts, and
3. That the IRS discontinues using third-party vendor data to identify those who have sold their principal residents unless the accuracy of the data can be established.