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ATTORNEYS AT LAW

REPAYING THE 2008 HOME-BUYER CREDIT

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Not long ago, we experienced one of the fastest declines in real estate values in history. In an effort to try to jump start the economy and reduce the growing number of vacant and foreclosed homes, Congress passed the Housing and Economic Recovery Act (HERA).

The HERA provided a credit of up to \$7,500 for anyone who purchased a principal residence between April 9, 2008 and Dec. 31, 2008 and had not owned one for the three-year period ending on the purchase date. In 2009, Congress increased the credit to \$8,000 for first time home buyers so long as they closed prior to September 30, 2010. Then, finally, another credit of \$6,500 became available to anyone who had owned a home for at least five of the last eight years who then purchased another home between November 7, 2009 and April 30, 2010. It seemed like anyone willing to reinvest in real estate had the opportunity to stand in line for a free gift from Uncle Sam. Not so fast...

Most people were made aware that if they sold their home within 3 years, they might have to repay some or all of the credit. However, most were not aware that of the various versions of the home buyer tax credit, one was not a credit at all, but rather a 'loan.' If you received the first-time home buyer credit for a 2008 home purchase (the first one originally passed under President Bush), your "credit" was really an interest free loan that must be paid back over the next 15 years. If you fall into this category, you probably received an IRS notice detailing the payments you will be required to pay beginning when you file your 2010 return. To make things even more complicated, many people have reportedly received these notices in error due to improper closing dates being reported to the IRS.

If you have received a repayment notice or you are not sure whether or not you are required to repay any of the credit you received, make sure you seek proper tax advice prior to filing your 2010 return.