

# NAR Issue Summary

## Federal Tax / First-time Home Buyer Incentives

### **NAR Committee:**

Federal Taxation Committee

### **What is the fundamental issue?**

In July 2008, Congress enacted a \$7500 refundable tax credit for first-time homebuyers (those who had no ownership interest in a principal residence in the previous 3 years). That credit applies to purchases between April 8, 2008 and June 30, 2009. An unusual provision in the credit requires that it be paid back to the Treasury in \$500 increments, beginning in 2011. Prospective homebuyers have objected to the repayment feature.

In February 2009, Congress reconfigured the credit. The amount of the credit was increased to \$8000 and the repayment feature was eliminated for 2009 purchases, so long as the purchaser remains in the house for more than 3 years. The repayment feature remains in place for 2008 purchases.

In November 2009, Congress extended the \$8000 credit for first-time buyers and also expanded the credit for some so-called "move up" buyers, i.e., those who owned a home but purchased a different home to be used as a principal residence. If these buyers satisfy certain criteria, they are eligible for a refundable tax credit of \$6500. The major criterion for the \$6500 credit is that the homeowner must have used the current home as a principal residence consecutively for 5 of the previous 8 years.

All homebuyer tax credits expire as of April 30, 2010. A transition rule applies that allows purchases under contract by April 30 to qualify for tax credits, so long as the transaction has closed by July 1, 2010.

### **I am a real estate professional. What does this mean for my business?**

The credit was implemented in 2008 as a temporary tax incentive that could boost sales. The repayment provision had a chilling effect during 2008, so the credit was not widely embraced. Eliminating the repayment will provide a much stronger incentive and be a useful marketing feature. During several months of 2009, first-time homebuyers represented more than 50% of sales. Historically, first-time homebuyers have been about 35 - 40% of purchasers.

### **NAR Policy:**

NAR strongly supports the first-time homebuyer credit. NAR also believes it should be extended through 2010.



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### **Opposition Arguments:**

N/A.

### **Legislative/Regulatory Status/Outlook**

Senate Finance Committee Chairman has taken a very vocal and strong position that the homebuyer credit will not be extended again and that it will expire on April 30, 2010, as presently scheduled. The transition rule through July 1 will be retained.

### **Current Legislation/Regulation (bill number or regulation)**

No actions at this time.

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