

Office for Financial Success – Financial Tip of the Week  
A service of the Personal Financial Planning Department  
College of Human Environmental Sciences  
University of Missouri-Columbia  
(03/20/2009)

[Home Just Got Sweeter](#)

As Spring Break is upon many of us, I will be brief. (I know I'm already tardy with the financial tip, due to a technical glitch.)

Today's topic is tax credits and, in particular, a new one for first time home buyers. For those that purchased their first home after April 8, 2008, they may claim the smaller of either \$7,500 or 10% of the purchase price of the home as a tax credit. For those purchasing during 2009, this amount rises to the smaller of \$8,000 or 10% of the purchase price of the home.

While tax credits generally reduce your taxes owed, dollar-for-dollar, this tax credit is a little different. If you claim the credit for a purchase made in 2008, it acts as a 0% interest rate loan that you must repay over a 15 year period. For a first-home purchased this year, you must repay the credit only if the home ceases to be your personal residence during a thirty-six month period beginning on the purchase date. To qualify, the home must be your personal residence and you and your spouse cannot have been the owner of any other main home during the three years ending on the date of purchase. Qualifying residences include a house, houseboats, house trailers, cooperatives, condominiums, or any other type of residence. (I'd recommend not trying the box under the bridge, however.)

Of course, there are some catches. Your modified adjusted gross income cannot exceed \$95,000, if single, or \$170,000 if married filing jointly. You cannot be a nonresident alien. The home cannot be outside of the United States. You cannot acquire the home by gift, from a related person (spouse, ancestor, or descendant), a corporation in which you own more than 50% of the value of the company, or a partnership in which you own more than 50% of the partnership.

The bottom line is, for many people, that this is a great opportunity to purchase your own home. For, unless I am missing something, if you purchase a home and live in it for three years, say while you are in graduate school, and then sell it for the purchase price or greater, the US Government pays you the lesser of either \$8,000 or 10% of the purchase price. Or, if the sales price is lower than the purchase price, you have up to a \$8,000 (or 10%) cushion. Can you think of a better way to get started on financial success? You either receive a gift of money or a gift of insurance against falling home prices. In the meantime you have begun to live the American Dream.

For more information: <http://www.irs.gov/pub/irs-pdf/f5405.pdf>

- Robert O. Weagley, Ph.D., CFP(r)

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