

latimes.com

NATION'S HOUSING

New \$6,500 federal tax credit for 'move-up' home buyers may benefit you

If you fit the criteria and are considering buying another house in the coming year, you might want to speed up the process and close by the June 30 expiration date.

By Kenneth R. Harney
November 15, 2009
Reporting from Washington

Take a close, hard look at the new \$6,500 federal tax credit for so-called move-up home buyers that passed the Senate and House recently. Though it's been getting second billing to the original \$8,000 credit for first-time purchasers -- now extended by Congress through June 30 -- the \$6,500 credit for current homeowners just might have your name on it.

How does it work? When will it be available?

The new credit is available now. It took effect Nov. 6, the day President Obama signed the legislation that created it. This means that if you fit the key criteria -- you've owned and lived in your home for a consecutive five out of the last eight years, and your adjusted household income doesn't exceed \$125,000 if you file taxes singly or \$225,000 if you are married filing jointly -- you can claim the credit as soon as you close on a qualifying house.

That could be next week, next month or next spring. There is no "move-up" requirement in the new credit. In fact, homeowners who plan to downsize into a smaller dwelling may prove to be significant users of the credit, along with people who are moving because of employment changes.

If you fit the criteria and are considering buying another house sometime in the coming year, you might want to speed up the process and sign a contract by April 30 and close by the June 30 expiration date. Think of it this way: If the government is willing to give you \$6,500 to act a little faster than you had planned, hey, why not?

Some other key features of the \$6,500 credit you ought to know about:

* Whatever you intend to buy, the house cannot cost more than \$800,000.

* The replacement house must become your main home. There is no requirement in the legislation that you sell your current home. You could rent it out, turn it into a second home or list it for sale later in 2010 when prices might be higher. If you plan to retain it, however, make sure that you move into the new house on the day you close so that there is no question it was your principal residence at that time.

* Like the first-time buyer credit, the \$6,500 version permits a variety of dwelling types for your purchase. These include new or existing single-family homes, condominiums, manufactured or mobile homes, and boats that function as your principal residence. You cannot claim the credit if you are buying a second home or an investment property.

* The Internal Revenue Service is required by Congress to scrutinize claims for tax credits -- both for the \$6,500 and the \$8,000 credits -- far more closely in the coming months than it did earlier this year. This is because federal investigators have documented significant instances of fraud -- supposed home buyers who were as young as 4, and "sales" that were fabricated. Investigators also found numerous cases of technical violations, such as purchase transactions among immediate family members, which are prohibited.

The revised rules require taxpayers to submit copies of their settlement statements (HUD-1 forms), along with their requests for credits using IRS Form 5405. Congress' new rules also prohibit individuals under the age of 18 or who are counted as dependents on another taxpayer's filings from claiming the credit.

* Home buyers in 2009 -- those who go to closing after Nov. 6 but no later than Dec. 31 -- can claim the \$6,500 credit on their 2009 federal tax returns, or amend their 2008 returns. Similarly, eligible buyers in 2010 will be able to file for the credit on their 2009 returns or 2010 returns. Talk to your tax advisor regarding timing decisions.

* If you aren't sure if you can make the deadlines established for the new credit -- a binding contract by April 30 and a settlement by June 30 -- do not assume that Congress will provide another extension. All the political and budgetary signs point the other way, and some of the primary authors of the credit insist that this is it -- no more extensions next year. Take them at their word.

One consumer resource that answers frequently asked questions about both the \$6,500 and \$8,000 extended credits is www.federalhousingtaxcredit.com, sponsored by the National Assn. of Home Builders.

kenharney@earthlink.net

Distributed by the Washington Post Writers Group.

Copyright © 2009, [The Los Angeles Times](http://www.losangeles.com)