



# The First-Time Homebuyer Tax Credit Revealed

*e-Booklet Edition*

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FIRST-TIME HOMEBUYER TAX CREDIT  
As Modified in the American Recovery and Reinvestment Act  
*Major Modifications Italicized*  
February 2009

FEATURE	CREDIT AS CREATED JULY 2008 APPLIES TO ALL QUALIFIED PURCHASES ON OR AFTER APRIL 9, 2008	REVISED CREDIT – EFFECTIVE FOR PURCHASES ON OR AFTER JANUARY 1, 2009 AND BEFORE DECEMBER 1, 2009
Amount of Credit	Lesser of 10 percent of cost of home or \$7500	<i>Maximum credit amount increased to \$8000</i>
Eligible Property	Any single family residence (including condos, co-ops, townhouses) that will be used as a principal residence.	No change All principal residences eligible.
Refundable	Yes. Reduces (or can eliminate) income tax liability for the year of purchase. Any unused amount of tax credit refunded to purchaser.	No change Purchasers will continue to receive refund for unused amount when tax return is filed.
Income Limit	Yes. Full amount of credit available for individuals with adjusted gross income of no more than \$75,000 (\$150,000 on a joint return). Phases out above those caps (\$95,000 and \$170,000).	No change Same income limits continue to apply.
First-time Homebuyer Only	Yes. Purchaser (and purchaser's spouse) may not have owned a principal residence in 3 years previous to purchase.	No change Still available for first-time purchasers only. Three-year rule continues to apply.
Revenue Bond Financing	No credit allowed if home financed with state/local bond funding.	<i>Purchasers who utilize revenue bond financing can use credit.</i>
Repayment	Yes. Portion (6.67% of credit or \$500) to be repaid each year for 15 years, starting with 2010 tax filing.	<i>No repayment for purchases on or after January 1, 2009 and before December 1, 2009</i>
Recapture	If home sold before 15-year repayment period ends, then outstanding balance of repayment amount recaptured on sale.	<i>If home is sold within three years of purchase, entire amount of credit is recaptured on sale. Applies only to homes purchased in 2009.</i>
Termination	July 1, 2009 (But note program changes for 2009)	<i>December 1, 2009</i>
Effective Date	Purchases on or after April 9, 2008 and before January 1, 2009. Repayment to begin for 2010 tax year.	<i>All revisions are effective as of January 1, 2009</i>

## Introduction

The Housing And Economic Recovery Act Of 2008 brought about some very interesting, and potentially lucrative, financial options for new homebuyers. In 2009, Congress expanded that to make it even more beneficial by changing it from a “loan” to a “credit” and increasing the potential financial benefit to the taxpayer. Obviously, there is a fair amount of confusion and misunderstanding concerning the details of this Tax Credit, so I have created this pamphlet in order to help my clients understand more clearly what this tax credit entails.

This e-Booklet is broken into three main sections. The first being general questions concerning the tax credit, the second section being “what if” type scenarios, and the third being the actual 2008 IRS Form 5405.

Please look through this e-Booklet and if you have any further questions, please do not hesitate to contact me.

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**Q. Can you give me an example of how the partial tax credit is determined?**

A. Just as an example, assume that a married couple has a modified adjusted gross income of \$160,000. The applicable phase-out to qualify for the tax credit is \$150,000, and the couple is \$10,000 over this amount. Dividing \$10,000 by the phase-out range of \$20,000 yields 0.5. When you subtract 0.5 from 1.0, the result is 0.5. To determine the amount of the partial first-time home buyer tax credit that is available to this couple, multiply \$8,000 by 0.5. The result is \$4,000.

Here's another example: assume that an individual home buyer has a modified adjusted gross income of \$88,000. The buyer's income exceeds \$75,000 by \$13,000. Dividing \$13,000 by the phaseout range of \$20,000 yields 0.65. When you subtract 0.65 from 1.0, the result is 0.35. Multiplying \$8,000 by 0.35 shows that the buyer is eligible for a partial tax credit of \$2,800.

Please remember that these examples are intended to provide a general idea of how the tax credit might be applied in different circumstances. You should always consult your tax advisor for information relating to your specific circumstances.

**Q. Who is considered to be a first-time homebuyer?**

A. Taxpayers who have not owned another principal residence at any time during the three years prior to the date of purchase.

**Q. Is a step-relative considered a related party?**

A. Step-relatives are neither ancestors nor lineal descendants and are therefore not related persons for purposes of the first-time homebuyer credit.

**Q. Which home purchases qualify for the first-time homebuyer credit?**

A. Any, new or resale, home purchased as the taxpayer's principal residence and located in the United States qualifies. You must take title to the home before Dec. 1, 2009, to qualify for the credit. For a home that you construct, the purchase date is considered to be the first date you occupy the home.

Taxpayers (including spouse, if married) who owned a principal residence at any time during the three years prior to the date of purchase are not eligible for the credit. This means that you can qualify for the credit if you (and your spouse, if married) have not owned a home in the three years prior to a purchase. If you make an eligible purchase in 2008, you claim the first-time homebuyer credit on your 2008 tax return. For an eligible purchase in 2009, you can choose to claim the credit on either your 2008 or 2009 income tax return.

Note that the definition of "principal residence" is identical to the one used to determine whether you may qualify for the \$250,000 / \$500,000 capital gain tax exclusion for principal residences.



**Q. When do I have to buy a new home to get the credit?**

A. The home must be purchased after April 8, 2008, and before Dec. 1, 2009, in order to obtain the credit. For a home you construct, the purchase date is considered to be the date you first occupy the home.

**Q. How do I claim the credit?**

A. The credit is claimed on new IRS Form 5405, First-Time Homebuyer Credit, and filed with your 2008 or 2009 federal income tax return on line 69 of your 1040.

**Q. If a person does not actually make the payments on a home that's their primary residence, but the deed and mortgage documents are in their name, can they be considered a first-time home buyer?**

A. Yes. If a taxpayer purchases a home to be used as a primary residence from an unrelated person and has not owned a home within the previous 36 months, the taxpayer is eligible for the first-time homebuyer credit regardless of who makes the mortgage payment.

**Q. If qualified, are homebuyers required to claim the first-time homebuyer credit?**

A. No.



**Q. I don't owe taxes and/or my income is exempt from tax and I do not have a filing requirement. Do I qualify for the credit?**

A. The credit is fully refundable and, if you qualify as a first-time homebuyer, having tax-exempt income will not preclude eligibility. Although there are maximum income limits for qualifying first-time homebuyers, there are no minimum income criteria. Thus, someone with no taxable income who qualifies as a first-time homebuyer may file for the sole purpose of claiming the credit for a refund.

**Q. Would I be considered a first time homebuyer if I owned a principle residence outside of the United States within the previous three years?**

A. Yes. A taxpayer who owned a principal residence outside of the United States within the last three years is not disqualified from taking the credit for a purchase within the United States.



**Q. Instead of buying a new home from a home builder, I hired a contractor to construct a home on a lot that I already own. Do I still qualify for the tax credit?**

A. Yes. For the purposes of the home buyer tax credit, a principal residence that is constructed by the home owner is treated by the tax code as having been "purchased" on the date the owner first occupies the house. In this situation, the date of first occupancy must be on or after January 1, 2009 and before December 1, 2009.

In contrast, for newly-constructed homes bought from a home builder, eligibility for the tax credit is determined by the settlement date.

**Q. Can I claim the tax credit if I finance the purchase of my home under a mortgage revenue bond (MRB) program?**

A. Yes. The tax credit can be combined with the MRB home buyer program. Note that first-time home buyers who purchased a home in 2008 may not claim the tax credit if they are participating in an MRB program.

**Q. I purchased a home that qualifies for the first-time homebuyer credit. I will be renting two of the bedrooms and reporting the rental income on Schedule E. Will I still qualify for the credit if I use the home as my principal residence?**

A. Yes, if you meet all first-time homebuyer eligibility requirements. See Form 5405, First-Time Homebuyer Credit, for more details.

**Q. Is there any way for a home buyer to access the money allocable to the credit sooner than waiting to file their 2009 tax return?**

A. Yes. Prospective home buyers who believe they qualify for the tax credit are permitted to reduce their income tax withholding. Reducing tax withholding (up to the amount of the credit) will enable the buyer to accumulate cash by raising his/her take home pay. This money can then be applied to the down-payment.

Buyers should adjust their withholding amount on their W-4 via their employer or through their quarterly estimated tax payment. IRS Publication 919 contains rules and guidelines for income tax withholding. Prospective home buyers should note that if income tax withholding is reduced and the tax credit qualified purchase does not occur, then the individual would be liable for repayment to the IRS of income tax and possible interest charges and penalties.

Further, rule changes made as part of the economic stimulus legislation allow home buyers to claim the tax credit and participate in a program financed by tax-exempt bonds. Some state housing finance agencies have introduced programs that provide short-term credit acceleration loans that may be used to fund a down-payment. Prospective home buyers should inquire with their state housing finance agency to determine the availability of such a program in their community.

The National Council of State Housing Agencies (NCSHA) has compiled a list of such programs.

**Q. Does the first-time homebuyer credit apply to homes located in the U.S. Territories?**

A. No.



**Q. I read that the tax credit is "refundable." What does that mean?**

A. The fact that the credit is refundable means that the home buyer credit can be claimed even if the taxpayer has little or no federal income tax liability to offset. Typically this involves the government sending the taxpayer a check for a portion or even all of the amount of the refundable tax credit.

For example, if a qualified home buyer expected, notwithstanding the tax credit, federal income tax liability of \$5,000 and had tax withholding of \$4,000 for the year, then without the tax credit the taxpayer would owe the IRS \$1,000 on April 15th. Suppose now that the taxpayer qualified for the \$8,000 home buyer tax credit. As a result, the taxpayer would receive a check for \$7,000 (\$8,000 minus the \$1,000 owed).

**Q. Who cannot take the credit?**

A. If any of the following describe you, you cannot take the credit, even if you buy a new home:

- A. Your income exceeds the phase-out range. This means joint filers with MAGI of \$170,000 and above and other taxpayers with MAGI of \$95,000 and above.
- B. You buy your home from a close relative. This includes your spouse, parent, grandparent, child or grandchild.
- C. You do not use the home as your principal residence.
- D. You sell your home before the end of the year.
- E. You are a nonresident alien.
- F. You are, or were, eligible to claim the District of Columbia first-time homebuyer credit for any taxable year. (This does not apply for a home purchased in 2009.)



Your home financing comes from tax-exempt mortgage revenue bonds. (This does not apply for a home purchased in 2009.)

You owned a principal residence at any time during the three years prior to the date of purchase of your new home. For example, if you bought a home on July 1, 2008, you cannot take the credit for that home if you owned, or had an ownership interest in, another principal residence at any time from July 2, 2005, through July 1, 2008.

**Q. Does previously inheriting a home and living in the inherited home automatically disqualify an individual as a first-time homebuyer with respect to a different home that is purchased within the prescribed 2008 and 2009 time frames?**

A. Yes, an ownership interest in a prior principal residence would preclude the taxpayer from being considered a first-time homebuyer. As long as the taxpayer owned and used the prior home as his principal residence, then he is not a first-time homebuyer. There is no exception for taxpayers who did not buy their prior residences.

**Q. I am not a U.S. citizen. Can I claim the tax credit?**

A. Maybe. Anyone who is not a nonresident alien (as defined by the IRS), who has not owned a principal residence in the previous three years and who meets the income limits test may claim the tax credit for a qualified home purchase. The IRS provides a definition of "nonresident alien" in IRS Publication 519.

**Q. I purchased a home in early 2009 and have already filed to receive the \$7,500 tax credit on my 2008 tax returns. How can I claim the new \$8,000 tax credit instead?**

A. Home buyers in this situation may file an amended 2008 tax return with a 1040X form. You should consult with a tax advisor to ensure you file this return properly.

**Q. If I claim the first-time homebuyer credit in 2009 and stop using the property as my main home before the 36 month period expires after I purchase, how is the credit repaid and how long would I have to repay it?**

A. If, within 36 months of the date of purchase, the property is no longer used as the taxpayer's principal residence, the taxpayer is required to repay the credit. Repayment of the full amount of the credit is due at that time the income tax return for the year the home ceased to be the taxpayer's principal residence is due. The full amount of the credit is reflected as additional tax on that year's tax return. Form 5405 and its instructions will be revised for tax year 2009 to include this information.



**Scenario 1. If a single person (Taxpayer A) qualifies as a first-time homebuyer at the time he/she purchases a home with Taxpayer B that is not a first-time homebuyer and later that year they marry each other, is the credit still allowed?**

A. Eligibility for the first-time homebuyer credit is determined on the date of purchase. If Taxpayer A, a first-time homebuyer, buys a house and then later that year marries Taxpayer B, not a first-time homebuyer, the credit is allowable to Taxpayer A. Taxpayer A may take the maximum credit.

**Scenario 2. Taxpayer A is a single first-time home buyer. Taxpayer B (parent) cosigns for A and does not qualify. Both names are on the mortgage. Can Taxpayer A claim the credit and, if so, how much?**

A. Yes. Taxpayer B is not a first-time homebuyer and cannot claim any portion of the credit, but A may claim the entire credit (\$7,500 for purchase in 2008; \$8,000 for purchase in 2009), if the home was purchased as Taxpayer A's primary residence.

**Scenario 3. A taxpayer owned her principal residence. Several years ago, she decided to relocate to a rented apartment, but did not sell the former residence. Instead, she rented it out to tenants. Now the taxpayer plans to buy another house and make it her new principal residence. Does she qualify for the first-time homebuyer credit?**

A. A taxpayer who owned rental property within the past three years is still eligible for the credit. The taxpayer cannot have owned and used a home as his or her principal residence within the last three years.

**Scenario 4. If husband and wife wanted to sell the home that the wife owned when they got married, and the husband had not owned a home within the past three years, could he qualify as a first-time homebuyer for the credit even though the wife would not qualify?**

A. No. The purchase date determines whether a taxpayer is a first-time homebuyer. Since the wife had ownership interest in a principal residence within the prior three years, neither taxpayer may take the first-time homebuyer credit. Section 36(c)(1) of the Internal Revenue Code requires that the taxpayer and the taxpayer's spouse not have an ownership interest in a principal residence within the prior three years from the date of purchase. The husband may not take the credit even if he filed on a separate return.

**Scenario 5. Taxpayer purchased a home on April 24, 2008, while she was separated from her husband. Later in the year, they reconciled and were living together at the end of 2008. She has not owned a home since 2004 but he owned sold his home in 2006. They remained married the entire time. Is the taxpayer eligible for the first-time homebuyer credit?**

A. No. The purchase date determines whether a taxpayer is a first-time homebuyer. Since the husband had ownership interest in a principal residence within the prior three years, and the taxpayers were legally married, neither taxpayer may take the first-time homebuyer credit. Section 36(c)(1) requires that the taxpayer and the taxpayer's spouse not have an ownership interest in a principal residence within the prior three years from the date of purchase. While individuals do not have to be married to get the credit, marriage (and legal separation) imputes ownership of a previous home upon the other spouse. The wife may not take the credit even if she filed on a separate return.

**Scenario 6. I have been estranged from my spouse for over three years and file married filing separate. I don't know if my spouse has owned a main home in the last three years, but I have not. If I buy a house in 2009 that otherwise qualifies for the first-time homebuyer credit, can I claim the credit?**

A. Section 36(c)(1) requires that the taxpayer and the taxpayer's spouse not have an ownership interest in a principal residence within the three years prior to the date of purchase. While individuals do not have to be married to get the credit, marriage (and legal separation) imputes ownership of a previous home upon the other spouse. If your spouse has not owned a main home in the last three years, then you may claim the credit.

**Scenario 7. I am separated from my spouse and considered unmarried, and qualify for the unmarried head of household filing status. My spouse has owned a main home in the last three years, but I have not. If I buy a home on May 1, 2009, that otherwise qualifies, can I claim the first-time homebuyer credit?**

A. No. Section 36(c)(1) requires that the taxpayer and the taxpayer's spouse not have an ownership interest in a principal residence within the three years prior to the date of purchase. While individuals do not have to be married to get the credit, marriage (and legal separation) imputes ownership of a previous home upon the other spouse. The taxpayer may not take the credit even if filed on a separate return.

**Scenario 8. A qualifying taxpayer bought a home in August 2008 that needed a lot of work before occupying. They finished the renovations and moved in the home in January 2009. Can they claim the \$8,000, as they did not occupy the home until 2009?**

A. No. Taxpayers who purchase an existing home and renovate the property before moving in are eligible for the first-time homebuyer credit based on the date of purchase, not the date of occupancy.



**First-Time Homebuyer Credit**

▶ Attach to Form 1040

Name(s) shown on return

Your social security number

**Part I General Information**

- A** Address of home qualifying for the credit (if different from the address shown on return)
- B** Date acquired (see instructions)
- C** If you are choosing to claim the credit on your 2008 return for a main home bought after December 31, 2008, and before December 1, 2009, check here (see instructions)

**Part II Credit**

<p><b>1</b> Enter the <b>smaller</b> of:</p> <ul style="list-style-type: none"> <li>• \$7,500 (\$8,000 if you purchased your home in 2009), but only half of that amount if married filing separately, <b>or</b></li> <li>• 10% of the purchase price of the home.</li> </ul> <p>If someone other than a spouse also held an interest in the home, enter only your share of this amount (see instructions)</p>				
<p><b>2</b> Enter your modified adjusted gross income (see instructions)</p>	<b>2</b>			
<p><b>3</b> Is line 2 more than \$75,000 (\$150,000 if married filing jointly)? <b>No.</b> Skip lines 3 through 5 and enter the amount from line 1 on line 6. <b>Yes.</b> Subtract \$75,000 (\$150,000 if married filing jointly) from the amount on line 2 and enter the result</p>	<b>3</b>			
<p><b>4</b> Divide line 3 by \$20,000 and enter the result as a decimal (rounded to at least three places). <b>Do not</b> enter more than 1.000</p>	<b>4</b>		X	
<p><b>5</b> Multiply line 1 by line 4</p>	<b>5</b>			
<p><b>6</b> Subtract line 5 from line 1. This is your <b>credit</b>. Enter here and on Form 1040, line 69</p>	<b>6</b>			

**General Instructions**

Section references are to the Internal Revenue Code.

**Purpose of Form**

Use Form 5405 to claim the first-time homebuyer credit. The credit may give you a refund even if you do not owe any tax.

For homes purchased in 2008, the credit operates much like an interest-free loan. You generally must repay it over a 15-year period. For homes purchased in 2009, you must repay the credit only if the home ceases to be your main home within the 36-month period beginning on the purchase date. See *Repayment of Credit* on page 2.

**Who Can Claim the Credit**

In general, you can claim the credit if you are a first-time homebuyer. You are considered a first-time homebuyer if:

- You purchased your main home located in the United States after April 8, 2008, and before December 1, 2009.
- You (and your spouse if married) did not own any other main home during the 3-year period ending on the date of purchase.

If you constructed your main home, you are treated as having purchased it on the date you first occupied it.

**Main home.** Your main home is the one you live in most of the time. It can be a house, houseboat, house trailer, cooperative apartment, condominium, or other type of residence.

**Who Cannot Claim the Credit**

You cannot claim the credit if any of the following apply.

1. Your modified adjusted gross income is \$95,000 or more (\$170,000 or more if married filing jointly). See the instructions for line 2.
2. You are, or were, eligible to claim the District of Columbia first-time homebuyer credit for any tax year. This rule does not apply for a home purchased in 2009.
3. Your home financing comes from tax-exempt mortgage revenue bonds. This rule does not apply for a home purchased in 2009.
4. You are a nonresident alien.
5. Your home is located outside the United States.
6. You sell the home, or it ceases to be your main home, before the end of 2008.
7. You acquired your home by gift or inheritance.
8. You acquired your home from a related person.

A related person includes:

- a. Your spouse, ancestors (parents, grandparents, etc.), or lineal descendants (children, grandchildren, etc.).
- b. A corporation in which you directly or indirectly own more than 50% in value of the outstanding stock of the corporation.
- c. A partnership in which you directly or indirectly own more than 50% of the capital interest or profits interest.

For more information about related persons, see *Nondeductible Loss* in Chapter 2 of Pub. 544, *Sales and Other Dispositions of Assets*. When determining whether you acquired your main home from a related person, family members in that discussion (except item 7) include only the people mentioned in 8a above.

## Amount of the Credit

Generally, the credit is the smaller of:

- \$7,500 (\$8,000 if you purchased your home in 2009), but only half of that amount if married filing separately, **or**
- 10% of the purchase price of the home.

You are allowed the full amount of the credit if your modified adjusted gross income (MAGI) is \$75,000 or less (\$150,000 or less if married filing jointly). The phase-out of the credit begins when your MAGI exceeds \$75,000 (\$150,000 if married filing jointly). The credit is eliminated completely when your MAGI reaches \$95,000 (\$170,000 if married filing jointly).

## Repayment of Credit

**Homes purchased in 2008.** You generally must repay the credit over a 15-year period in 15 equal installments. The repayment period begins in 2010 and you must include the first installment as additional tax on your 2010 tax return.

If your home ceases to be your main home before the 15-year period is up, you must include all remaining annual installments as additional tax on the return for the tax year that happens. This includes situations where you sell the home, you convert it to business or rental property, or the home is destroyed, condemned, or disposed of under threat of condemnation.

If you and your spouse claim the credit on a joint return, each spouse is treated as having been allowed half of the credit for purposes of repaying the credit.

**Example 1.** You claimed a \$7,500 credit on your 2008 tax return. You must include \$500 ( $\$7,500 \div 15$ ) as additional tax on your 2010 tax return and on each tax return for the next 14 years.

**Example 2.** You claimed a \$7,500 credit on your 2008 tax return. In 2009, you sold the home to your son. You must include \$7,500 as additional tax on your 2009 tax return.

**Exceptions.** The following are exceptions to the repayment rule.

- If you sell the home to someone who is **not** related to you, the repayment in the year of sale is limited to the amount of gain on the sale. (See item 8 under *Who Cannot Claim the Credit* for the definition of a related person.) When figuring the gain, reduce the adjusted basis of the home by the amount of the credit you did not repay.
- If the home is destroyed, condemned, or disposed of under threat of condemnation, and you acquire a new main home within 2 years of the event, you continue to pay the installments over the remainder of the 15-year repayment period.
- If, as part of a divorce settlement, the home is transferred to a spouse or former spouse, the spouse who receives the home is responsible for making all subsequent installment payments.

- If you die, any remaining annual installments are not due. If you filed a joint return and then you die, your surviving spouse would be required to repay his or her half of the remaining repayment amount.

**Homes purchased in 2009.** You must repay the credit only if the home ceases to be your main home within the 36-month period beginning on the purchase date. This includes situations where you sell the home, you convert it to business or rental property, or the home is destroyed, condemned, or disposed of under threat of condemnation. You repay the credit by including it as additional tax on the return for the year the home ceases to be your main home. If the home continues to be your main home for at least 36 months beginning on the purchase date, you do not have to repay any of the credit.

If you and your spouse claim the credit on a joint return, each spouse is treated as having been allowed half of the credit for purposes of repaying the credit.

**Exceptions.** The following are exceptions to the repayment rule.

- If you sell the home to someone who is **not** related to you, the repayment in the year of sale is limited to the amount of gain on the sale. (See item 8 under *Who Cannot Claim the Credit* for the definition of a related person.) When figuring the gain, reduce the adjusted basis of the home by the amount of the credit.
- If the home is destroyed, condemned, or disposed of under threat of condemnation, and you acquire a new main home within 2 years of the event, you do not have to repay the credit.
- If, as part of a divorce settlement, the home is transferred to a spouse or former spouse, the spouse who receives the home is responsible for repaying the credit.
- If you die, repayment of the credit is not required. If you filed a joint return and then you die, your surviving spouse would be required to repay his or her half of the credit.

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## Specific Instructions

### Part I General Information

**Line B.** Enter the date you acquired the home. This is the date you purchased it (or the date you first occupied it if you constructed your main home).

**Line C.** You can choose to claim the credit on your 2008 Form 1040 for a main home purchased after December 31, 2008, and before December 1, 2009. If you make this choice, check the box.

### Part II Credit

**Line 1.** If two or more unmarried individuals buy a main home, they can allocate the credit among the individual owners using any reasonable method. The total amount allocated cannot exceed the smaller of \$7,500 (\$8,000 if you purchased your home in 2009) or 10% of the purchase price. See *Purchase price* on page 3.

**Note.** A reasonable method is any method that does not allocate all or a part of the credit to a co-owner who is not eligible to claim that part of the credit.

**Purchase price.** The purchase price is the adjusted basis of your home on the date you purchased it. This includes certain settlement or closing costs (such as legal fees and recording fees) and your down payment and debt (such as a first or second mortgage or notes you gave the seller in payment for the home). If you build, or contract to build, a new home, your purchase price can include costs of construction. For more information about adjusted basis, see Pub. 551, Basis of Assets.

**Line 2.** Your modified adjusted gross income is the amount from Form 1040, line 38, increased by the total of any:

- Exclusion of income from Puerto Rico, and
- Amount from Form 2555, lines 45 and 50; Form 2555-EZ, line 18; and Form 4563, line 15.

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You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103.

The average time and expenses required to complete and file this form will vary depending on individual circumstances. For the estimated averages, see the instructions for your income tax return.

If you have suggestions for making this form simpler, we would be happy to hear from you. See the instructions for your income tax return.