<u>**AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009**</u>

HOUSING TAX CREDIT FREQUENTLY ASKED QUESTIONS (FAQ)

On February 17, 2009 President Obama signed the American Recovery and Reinvestment Act of 2009 into law.

Key provisions advocated by the Manufactured Housing Institute (MHI) and its affiliates the National Modular Housing Council (NMHC) and National Communities Council (NCC) were included in the final economic stimulus package.

In particular, the law authorizes a tax credit of up to $8,000 for qualified first-time home buyers purchasing a principal residence on or after January 1, 2009 and before December 1, 2009.

MHI has provided the following guidance on how the housing tax credit would impact the industry and our customers.

(Please note: This is guidance only, and you should contact a professional tax consultant for a fuller explanation of any particular provision.)

Who is eligible to claim the tax credit?

First-time home buyers purchasing a principal residence—either new or resale—are eligible for a tax credit of up to $8,000. To qualify for the tax credit, a home purchase must occur on or after January 1, 2009 and before December 1, 2009. For the purposes of the tax credit, the purchase date is the date when closing occurs and the title to the property transfers to the home owner. The tax credit will be administered through the Internal Revenue Service (IRS).

What is the definition of a first-time home buyer?

The law defines "first-time home buyer" as a buyer who has not owned a principal residence during the three-year period prior to the purchase. For married taxpayers, the law reviews the homeownership history of both the home buyer and his/her spouse.

Does this tax credit apply to manufactured and modular homes?

Any home that will be used as a principal residence will qualify for the credit including manufactured homes, modular homes, site-built homes, even houseboats! This also includes homes placed on private land or in a land-lease community, a condominium, or a cooperative. Homes financed using a personal property loan are eligible.

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How is the amount of the tax credit determined?

The tax credit is equal to 10 percent of the home's purchase price up to a maximum of $8,000.

What exactly is a tax credit?

A tax credit is a dollar-for-dollar reduction in what the taxpayer owes. So a taxpayer who owes $8,000 in income taxes and who receives an $8,000 tax credit would owe nothing to the IRS.

What does it mean that the credit is "refundable"?

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 the entire amount of the refundable tax credit.

For example, if a qualified home buyer expected, notwithstanding the tax credit, a federal income tax liability of $6,000 and had tax withholdings of $5,000 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 full $8,000 home buyer tax credit. As a result, the taxpayer would actually receive a check for $7,000 ($8,000 minus the $1,000 owed).

How is this home buyer tax credit different from the last tax credit that Congress enacted in July of 2008?

This new provision is a true "credit" and does not have to be repaid, unlike the previous one, which was essentially an interest-free loan. However, home buyers still must use the residence as a principal residence for at least three years or else return a portion of the tax credit amount.

What are the income limits for individuals claiming the tax credit?

1) For single-taxpayers with a modified adjusted gross income (MAGI), as defined by the IRS, under $75,000 or married taxpayers filing a joint return with a MAGI under $150,000, the full $8,000 tax credit amount is available.

2) For single-taxpayers with a MAGI over $75,000 or married taxpayers filing a joint return with a MAGI over $150,000, the credit is reduced proportionally using a phase-out.

3) For single-taxpayers with a MAGI of more than $95,000 or married taxpayers filing a joint return with a MAGI over $170,000, the tax credit is reduced to zero.

Partial credits of less than $8,000 are available for some homebuyers whose MAGI exceeds the phase-out limits. **All homebuyers should consult with tax professionals to calculate the exact amount they are eligible to receive.**

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How do homebuyers claim the tax credit?

Homebuyers will claim the tax credit on their federal income tax return. Specifically, home buyers should complete IRS Form 5405 to determine their tax credit amount, and then claim this amount on Line 69 of their 1040 income tax return. No other applications or forms are required, and no pre-approval is necessary.

Can someone who is not a U.S. citizen claim the tax credit?

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.

Can a homebuyer apply the tax credit against their 2008 tax return?

Yes. The law allows taxpayers to choose to treat qualified home purchases in 2009 as if the purchase occurred on December 31, 2008. This means that the 2008 income limit (MAGI) applies and accelerates when the credit can be claimed (tax filing for 2008 returns instead of for 2009 returns). A benefit of this election is that a home buyer in 2009 will know their 2008 MAGI with certainty.

Taxpayers buying a home who wish to claim it on their 2008 tax return, but who have already submitted their 2008 return to the IRS, may file an amended 2008 return claiming the tax credit.

Also, 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. **All homebuyers should consult with tax professionals to determine how to arrange this.**