

Congress Set to Extend First-Time Homebuyer Credit and Crack Down on Abuses

Congress is poised to extend the first-time homebuyer tax credit to encourage a fragile recovery in the housing sector. The first-time homebuyer credit is scheduled to expire after November 30, 2009 but lawmakers from both parties support an extension, although they disagree for how long. At the same time, Congress is prodding the IRS to curb abuses of the credit.

Temporary credit

The first-time homebuyer credit rewards eligible individuals with a maximum \$8,000 refundable credit after the purchase of a qualified residence. The credit was originally enacted in 2008 and enhanced in the American Recovery and Reinvestment Act of 2009 (2009 Recovery Act). However, the 2009 Recovery Act did not make the credit permanent. It will expire after November 30, 2009.

The 2009 Recovery Act also kept intact important income limitations. Generally, the credit phases out for single individuals with modified adjusted gross incomes (MAGI) in excess of \$75,000 and for married couples filing jointly with MAGI above \$150,000.

Extension

Several bills have been introduced in Congress to extend the first-time homebuyer credit. One bill would extend the credit for an additional three months with no change in the current income limits. Another bill would extend the credit for seven months and double the income limitations.

One stumbling block to extending the first-time homebuyer credit is how to pay for an extension. The credit is estimated to have already cost the government \$10 billion. Congress could link an extension of the credit to a revenue raiser such as codification of the economic substance doctrine or new limits on health flexible spending arrangements. Our office will keep you posted of developments.

Abuses

According to trade reports, the first-time homebuyer credit has generated more than 300,000 home sales above what would normally have occurred. The credit has also helped to reduce excess new construction inventory.

However, the news is not all good. The IRS is reportedly investigating more than 100 civil fraud cases related to the first-time homebuyer credit. In some cases, the scams have been criminal.

A government watchdog told Congress in October that the IRS has paid more than \$400 million in bogus claims for the first-time homebuyer credit. Congress has instructed the IRS to crackdown on abuses. The IRS is expected to heighten the substantiation requirements for the credit.

If you have any questions about the first-time homebuyer credit, please contact our office.