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You may qualify for a home-buyer tax credit

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Millions of additional people may be able to take advantage of the new and improved first-time home buyer tax credit now, and it’s not just for first-time home buyers anymore. You may qualify.

President Barack Obama recently signed legislation to extend unemployment benefits to American workers. The law also includes provisions that vastly expand the number of people eligible for home buyer credits by boosting income-eligibility limits, giving buyers more time, creating a $6,500 credit for longtime homeowners and launching more accommodating rules for members of the military. Here are the details.

The $8,000 credit

If you were locked out of the first-time home buyer credit in the past simply because you earned too much, there’s good news.

Now you can qualify for the full $8,000 first-time home buyer credit with a single income of up to $125,000 and married income of up to $225,000. Those who earn more will be phased out.

The credit ends completely once single income exceeds $145,000 and married income exceeds $245,000. Still, that’s a big boost from the previous law that shut off the credit for singles earning more than $95,000 and married couples who earned more than $170,000.

Other eligibility rules

You must not have owned another home for at least the previous three years.

You must buy a home (or have a binding contract to buy) by April 30. Under the new law, if the sale doesn’t close on time, you can still get the credit as long as you’ve got a binding contract on the ending date, said Jackie Perlman, an analyst with the Tax Institute at H&R Block in Kansas City, Mo.

You must be older than 18 and not claimed as a dependent by any other taxpayer.

The property you purchase cannot have been acquired from a relative.

You must attach a copy of your settlement statement with your tax return to claim the credit.

Most buyers must also continue to own the new home for at least three years. If they sell in less time, the government will demand that they pay the credit back, said Clint Stretch, director of tax policy with Deloitte Tax.

Rules for military

The government will not require repayment of the credit if you are a member of the military and had to sell or stop using the home as a residence because of extended duty, however.

In addition, those serving outside of the U.S. during any part of 2009 or early 2010 will get an additional year to claim the credit. In other words, the credit ends for most people on April 30, 2010.

The $6,500 credit

The new law carves out an additional credit for current homeowners.

If you have owned and lived in a home for at least five consecutive years of the last eight years, you could qualify for a $6,500 tax credit if you buy a new home between now and April 30.

The "five-of-eight" requirement means that this credit could accommodate people who lost their homes in the last year or two to foreclosure or even sold a house and didn’t immediately replace it, said John Roth, senior tax analyst with CCH, a Riverwoods, Ill., publisher of tax information.

Would you have to sell your residence for it to qualify for the $6,500 credit, if you wanted to buy a new one? Not necessarily, Roth said. The home you purchase must become your principal residence, so you would have to move there. But nothing in the law says you cannot keep your existing residence as a second home or rental, he said.

If you do choose to sell your existing residence, you need to pay close attention to how much you earn on that sale, Stretch said. That’s because taxable profits from the sale of your residence will be added to your other earnings to determine whether your adjusted gross income exceeds the allowable thresholds.

This credit also phases out for singles earning more than $125,000 and married couples earning more than $225,000.

On the bright side, some profits from the sale of a personal residence don’t count. That’s because taxpayers are allowed to exclude up to $250,000 per person or $500,000 per couple in profits on the sale of their personal residence from tax if they lived in that home for two of the last five years, Stretch said.

Only profits exceeding those excluded amounts would be included in income, he noted.

Kathy Kristof writes for the Los Angeles Times.