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Tax Credit Quandaries Answered

The complexity of new home buyer tax credits leaves potential buyers with many questions. Here are answers to some of the most confusing:

How does a current home owner qualify for the \$6,500 credit?

Buyers must have lived in their homes for at least five out of the last eight years. The home they buy must become their primary residence, but buyers don't have to sell their previous home. They can use the previous home as a rental or a second home and still claim the credit.

Does the new home have to be more expensive than the one the buyer currently owns?

No. It is fine to use it to downsize. If the property sells for more than \$800,000, the buyers don't qualify.

Can buyers who are building a new home claim the credit?

Yes, although the contract must be in place by April 30 and the buyer must move in by July 1.

Can buyers claim the credit if they purchase a home from a relative?

No. The legislation prohibits taxpayers from claiming the credit if the sale is between "related parties," including parent, grandparent, child, or grandchild.

Source: USA Today, Sandra Block (11/24/2009)

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