



Jason P Bailey CPA, PC

Your Success, One Step At A Time

1140 Kildare Farm Rd Suite 108-9 Cary, NC | (919) 234-7574

The 2009 Homebuyer Tax Credit- Calculating the Client's Tax Liability

You have a homebuyer who took the credit in 2009 but now wants to sell their home. They are still in the 36 month window where a qualify event may trigger them owing part or all of the credit back when they file their taxes. The IRS website at www.irs.gov lists these events. Look in the *First-Time Homebuyer Credit Questions and Answers – Homes Purchased in 2009 or 2010* section. If any of the events listed has occurred for your homebuyer, they may have to repay some of the credit they took in 2009 or 2010.

- You sell the home.
- You transfer the home to a spouse or former spouse in a divorce settlement.
- You convert the entire home to a rental or business property.
- You converted the home to a vacation or second home.
- You no longer live in the home for the greater number of nights in a year.
- Your home is destroyed or condemned.
- You lose your home in foreclosure.
- You die.

If your client determines that any of these events occurred, they should use the IRS worksheet for Form 5405 to calculate their tax liability. An example is presented below to help you visual the steps taken to calculate the liability.

John purchased a home in June 2009 for \$200,000 and took the homebuyer credit of \$8000. He is now selling his home with your help for \$190,000. His selling expenses are \$5,000. . His basis for his home is $\$200,000 - \$8,000 = \$192,000$. This basis number is the threshold on whether the will client will owe any part of the credit back. He would not be required to pay back the credit because he did not realize a gain. A snapshot of the worksheet is below.

Form 5405 Gain or (Loss) Worksheet

Keep for Your Records

Note: Use only if your home was destroyed or you sold your home to someone who is **not** related to you (including a sale through condemnation or under threat of condemnation). See Pub. 523, Selling Your Home, for information on what to enter on lines 1, 2, and 4. But if you sold your home through condemnation, see chapter 1 in Pub. 544, Sales and Other Dispositions of Assets, for information on what to enter on lines 1 and 2.

1. Selling price of home, insurance proceeds, or gross condemnation award	1.	_____
2. Selling expenses (including commissions, advertising, and legal fees, and seller-paid loan charges) or expenses in getting the condemnation award	2.	_____
3. Subtract line 2 from line 1. This is the amount realized on the sale of the home	3.	_____
4. Adjusted basis of home sold (from line 13 of Worksheet 1 in Pub. 523)	4.	_____
5. Enter the first-time homebuyer credit claimed on Form 5405	5.	_____
6. Subtract line 5 from line 4. This is the adjusted basis for purposes of repaying the credit	6.	_____
7. Subtract line 6 from line 3	7.	_____

- If line 7 is more than -0-, you have a gain. Check the box on line 13a of Form 5405. Also check the box on line 13f or 13g, whichever applies, if the home was destroyed or you sold the home through condemnation or under threat of condemnation. Enter the result on line 15 and complete the rest of Part IV. **However**, if you purchased the home in 2009 and it was destroyed or you sold it through condemnation or under threat of condemnation to an unrelated person, check only the box on line 13f or 13g; do not check the box on line 13a or complete Part IV.
- If line 7 is -0- or less, check the box on line 13b of Form 5405. Also check the box on line 13f or 13g, whichever applies, if the home was destroyed or you sold the home through condemnation or under threat of condemnation.

The determination of your tax liability should be done by a competent tax preparer familiar with this specific tax code and associated worksheets.

This information is considered to be accurate, but always consult a tax advisor concerning your individual situation.

Jason P Bailey, CPA (NC license #35973) resides in Raleigh, NC. He is a small business CPA specializing in Quickbooks use, tax planning and preparation, and consulting. He can be reached at jbailey@jpbaileycpa.com



www.jpbaileycpa.com