

Treasury Identifies Confusion in IRS Handling of Homebuyer Tax Credits

By: Jann Swanson | Fri, Sep 10 2010, 12:37 PM

The Treasury Inspector General for Tax Administration (TIGTA) has completed a [study](#) of IRS management of the evolving series of tax credits that were offered to homebuyers over that last two years and found that the IRS needs to "improve its capabilities to identify taxpayers who must repay tax credits for homes they purchased under the First-Time Homebuyer Credit program"

The findings also provide an [unpleasant surprise](#) for a few people who took advantage of the credit, but good news to many more. In the first case, some homebuyers received what they thought was a gift of up to \$8,000 which was actually a loan. In the second instance, homebuyers will not have to pay back money as they thought they would.

In 2008 the Housing and Economic Recovery Act, the first attempt to stave off a looming housing crisis, contained a "tax credit" for first time homebuyers - or at least those who had not owned a home during the previous three years - of 10% of the purchase price up to a cap of \$7,500 if they purchased a home between April 8, 2008 and July 1, 2009. **This was an interest-free loan that would be recaptured through a slight increase in the homebuyer's taxes during each of 15 years**, starting the second year after the house purchase. The idea behind the credit was to defer a bit of the cost of purchasing a home into the future when, hopefully, the economy could help pay it back.

With the housing market still in extremis, Congress passed another bill, the American Recovery and Reinvestment Act of 2009, which also included [another homebuyer tax credit](#), this time an outright cash rebate of ten percent of the purchase price with an \$8,000 cap. The effective dates for purchases were originally set for January 1, 2009 through November 30, thus overlapping the first tax credit authorization. A third bill, the Worker, Homeownership and Business Assistance Act of 2009 extended dates of the \$8,000 credit into 2010 and added a smaller credit for repeat buyers. That legislation does not appear to, as yet, be part of the problem. All three of the bills contained nearly identical provisions for recapturing the credit if the house were sold within three years and for waiving the recapture if the owner were to die or sell the home without a gain.

The TIGTA study identified the potential for confusion between the interest free loan in 2008 and the 10 percent tax credit in 2009 when an audit noted that **taxpayer accounts were not properly coded to indicate that they purchased their homes during 2009**. In some instances, the IRS did not accurately distinguish between individuals with a 2008 home purchase and those who purchased in 2009.

73,119 (4.1 percent) of those receiving the tax credit had incorrect purchase dates shown on the IRS computer system. Of those, 59,802 had purchased their homes in 2009 and the IRS either incorrectly recorded the purchase date as 2008 or did not record the date at all. 9,122 of these taxpayers incorrectly received their credits in the form of a tax refund while 59,802 individuals were notified that the tax credit portion of their refund was subject to repayment.

The report also found that \$10.1 million in Homebuyer Credits were claimed by 1,326 taxpayers who were identified as deceased by the Social Security Administration, about a third of whom had actually died more than a year before they allegedly purchased a home. The IRS did not allow 528 of those individuals to receive over \$4 million they had claimed.

The report recommends that the Commissioner of the IRS Wage and Investment Division correct the purchase dates for the accounts with incorrect purchase dates. TIGTA also found that the IRS does not currently have the ability to identify individuals who received a credit and later ceased using the home as their primary residence, which would accelerate recapture requirements. The IRS said it would use third-party property records to verify home purchase or disposition and will refer discrepancies for appropriate resolution.

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