



## Important Tax Advantages

**Q: Teri, what are some tax breaks that can help save homeowners money?**

**A:** Most homeowners know that the beginning of each new year represents a new tax season, and with each tax season come new opportunities to use your home as an excellent way to save money through valuable tax deductions.

Federal tax laws have made it advantageous to own a home. Federal tax credits have been issued to do two specific things: to offset the cost of owning a home and to motivate new buyers to keep the housing market hopping.

Just like other federal laws that benefit the general population, tax laws are never guaranteed for more than a few years. Therefore, a wise homeowner will take advantage of all the available tax benefits while they are still viable options.

This article presents a brief introduction to the most popular and lucrative tax benefits for homeowners. This information should not be considered tax advice, and it is always a good idea to check with your federal taxing agency or even a tax professional to find out which options are applicable to your individual tax situation.

### **Deduct the Interest Paid on Mortgage Loans**

This is perhaps the absolute best tax deduction that any homeowner could hope for. Taking full advantage of this deduction can save you potentially thousands of dollars, depending on the principal and structure of your mortgage. Generally, as long as your mortgage is for less than one million dollars, you can deduct the interest.

During the first few years that you own your home, you will learn that most of your payment amount is used to pay down the interest rather than the principal. Therefore, this tax break was designed to be most beneficial to new buyers. Of course, as mentioned above, it really just depends on the type of loan you selected when you purchased your home.

Homebuyers who have opted for a balloon or interest-only mortgage may discover that this deduction makes owning a home much less expensive.

When you deduct the interest that you have paid, your taxable income is lowered, reducing the amount of tax that you owe. The mortgage interest deduction and any other deduction

resulting from a home equity loan (see below) can be shared among filers who do not file jointly.

If you have borrowed a home-equity loan, it is important to realize that the interest is deductible. However, such deductions are almost always limited to loans of no more than \$100,000, just as deductions are limited to standard mortgages of no more than one million dollars. The amount that is deductible may actually be the fair market value of your home, rather than the \$100,000. If you are considering deducting the interest paid on a mortgage or home-equity loan, consult with a tax professional for advice.

### **Deduct the Interest Paid on Home-Improvement Loans**

The calculation of the deduction that corresponds to interest paid on a home-improvement loan differs from that of the other interest deductions described above. The calculation is fairly complicated, but if you are using the loan proceeds to make improvements that will increase the home's value, extend the life of the home, or adapt the home to meet changing needs (such as adaptations for the elderly or disabled), then you can probably deduct ALL of the interest paid on the loan.

Sometimes home-improvement loans are used to fund smaller projects, such as painting and minor updating. In these cases, you can usually deduct some of the interest paid on the loan. However, the largest tax benefits from repairs result when you sell your home.

### **Deduct The Points You Pay at Closing**

A point represents one percent of the amount of the mortgage that you are borrowing. In most cases, you pay points to the lender at the time of the closing. Points are fully deductible, as is interest, during the year in which you purchase a home.

Points are deductible when you opt to refinance, too. The difference is that in order for points on refinancing loans to be deductible, they must be amortized over the life of the loan. If you find it advantageous to refinance again in the future, you can immediately deduct the remaining points from the original refinance loan when the new points have been amortized over the life of the new loan.

### **Deduct Your Real-Estate or Property Taxes**

When you pay real-estate and/or property taxes, you may deduct the amount from your federal taxes. There is a caveat, however. If you receive any refund of your local or state property taxes, it will reduce the amount of your federal deduction eligibility by the same amount. Find a tax professional to help you understand your eligibility for this tax deduction.

### **When You Sell, Take Advantage of the Capital Gains Exclusion**

The Taxpayer Relief Act of 1997 gives real-estate investors the ability to retain the profit earned when their home sells. The restriction is that the home owner must have lived in the property during two of the last five years that the property was owned. When taking advantage of this tax break, homeowners may retain up to \$500,000 – tax-free – from the profit on the home

sale. There is no restriction on how many times homeowners may use this tax benefit, so long as they qualify and meet the residency requirement.

### **Deduct Your Home Office**

Many taxpayers do not realize that when some portion of the home is used exclusively as a home office for a business, a percentage of the costs associated with the home may be deducted. A specific percentage of utility bills, painting fees, insurance premiums, and depreciation may be deducted by homeowners who use space in their home as an office.

This deduction is restricted if your home is partially owned by your business, and if any capital gains would be divided between you and your business. Again, work with a tax professional to understand the details.

### **Sellers' Expenses Reduce Capital-Gains-Tax Liabilities**

When you sell a home, you incur selling costs. These costs include, but are not limited to, advertising, title insurance, inspections, painting, decorating, landscaping, legal fees and agent commissions. As long as repair, painting and upgrade costs were incurred within 90 days of your home's sale, they are deductible.

This deduction will reduce your amount of capital gain for tax purposes. The way that this deduction is calculated will depend primarily on your home's value. Ask your realtor or a tax advisor for additional information about deducting sellers' expenses.

### **Deduct Moving Costs When You are Relocating for Work**

When you must move for your job, you can almost always deduct the moving costs that you incur. You must meet certain criteria, including moving within one year of relocation to a new location at least 50 miles from your current home and working full-time at the new location for at least 39 weeks during the year following your move. These deductible expenses can include travel costs, storage costs, hotel costs and mover costs.

Smart consumers make financial decisions by weighing the advantages and disadvantages of every possible option. Buying a home is no exception. Whether you already own your home, or are considering the purchase of a new home, you need to become familiar with the many tax deductions offered to homeowners. Your realtor is an excellent source of general information about local taxation, taxing authorities and possible tax deductions. Begin your research by requesting general information from your realtor and then contact a tax professional or financial planner to learn about the best tax deductions for your particular situation.

### **Need Additional Buying information?**

***Contact Teri Today! Email Teri at: [greent@hasson.com](mailto:greent@hasson.com) or call her at (541) 350-8424.***