

TAX GUIDE

for homeowners



TAX BREAKS for homeowners

Owning a home gives you the following tax benefits:

- A deduction for real estate taxes.
- A deduction for interest on your home mortgage (up to \$1,000,000) or home-equity loan where available (up to \$100,000).
- A deduction for losses that occur as a result of fire, storm, flood, earthquake, or other casualty, to the extent the loss exceeds a dollar and adjusted gross income threshold (after reduction for insurance reimbursement).
- A deduction for qualifying expenses if you conduct a business in your home or rent out your residence and meet other requirements in the tax law.
- A home sale tax exclusion. Married taxpayers who meet eligibility requirements may exclude from taxation up to \$500,000 of home-sale profits; singles may exclude up to \$250,000.

To be eligible for the exclusion, a taxpayer must have owned the residence and occupied it as a principal residence for at least two of the five years prior to the sale. The exclusion may be used only once every two years.

TAX TIPS for homeowners

- ▶ On a home sale, partial exclusion from taxes may be available where the taxpayer fails to meet the full exclusion eligibility requirements due to a job change, illness, or certain other unforeseen circumstances. The rules allow some flexibility in certain situations, so it's a good idea to get details on how the rules apply in your particular circumstances.
- ▶ Points paid on home mortgages may be deducted in the tax year you pay them. You don't have to write a separate check for the points as long as you provide funds for down payments, escrow deposits, etc., at least equal to the points paid. In addition, the buyer can deduct points paid by the seller.
- ▶ Points paid on a refinanced mortgage do not qualify for current deduction; you deduct them pro rata over the life of the loan.

There is an exception if part of the refinanced funds are spent on home improvements. You may be able to deduct the same percentage of points paid as the percentage of the loan that was used for improvements.

- ▶ If you refinance more than once, and in so doing pay off a prior refinancing, the balance of points not yet deducted becomes deductible in the year of the new refinancing.



- ▶ A home-equity loan (where available) may enable you to finance purchases of consumer items and maintain deductibility of interest. Interest on consumer loans is not deductible, so this option for homeowners can be important.

Beware that you do not borrow beyond \$100,000, or you'll lose the interest deduction on the excess. Also realize that if you cannot make payments on the loan, you stand to lose your house.

TAX PLANNING pointers

- ▶ The exclusion of gain for home sales applies to "principal residences." This definition includes more than just a house. A condominium, duplex, apartment, even a houseboat or yacht can qualify as long as it's your principal residence.
- ▶ The exclusion of gain can be applied to the sale of vacant land adjacent to your home which you used as part of your principal residence. The home must be sold within two years before or after the land sale.
- ▶ If you suffer a home casualty loss in a disaster that causes your area to be designated a federal disaster area, you have the option of taking the loss on your prior year's return. That way you may have funds that much sooner to help in repairing your home.
- ▶ The \$250,000/\$500,000 gain exclusion rules are good news for most taxpayers. Because most home sales will not be subject to tax, the need for record-keeping may be lessened for many taxpayers.

However, home prices can appreciate significantly over a period of years, so you cannot be certain that your gain in a future home sale will always be at, or under, the exclusion limit. Also, you may not always meet the two-year ownership and use requirements for full gain exclusion. For these reasons, it's generally advisable to continue maintaining good records of home costs and improvements in order to verify the basis of your home when it is sold.

- ▶ In your recordkeeping, be aware that home repairs do not increase your tax basis in a home, but capital improvements do. Typical repairs include such things as painting, cleaning the furnace, refinishing floors, etc. Examples of improvements include substantial landscaping or remodeling the kitchen or other rooms.

The information in this brochure is of a general nature and should not be acted upon without further details and/or professional guidance. For assistance, please contact our office.



TULSA TAX COACH

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