

HOMEOWNER TAX BREAKS



KEEP MORE OF YOUR MONEY FOR YOURSELF
TAKE ADVANTAGE OF EVERY TAX BREAK YOU CAN



Tax breaks for homeowners were first instituted back in 1920, and still remain an excellent benefit of owning your own home today. Whether you own a trailer home, town home, condo, co-op apartment or single family home, you may be able to take advantage of these tax breaks.

You should consult with your tax accountant for the full details on qualification, but here is a summary to give you an overview of deductible expenses.

DEDUCT THE INTEREST

For most homeowners, interest paid on your mortgage is deductible dollar for dollar (up to a certain dollar limit - see your tax accountant for details).

If you assume additional debt to improve your principal residence, you can usually take an itemized deduction on the interest paid for up to \$1 million.

You can usually deduct the interest on a home equity line of debt up to \$100,000 on your principal residence.

The caveat that applies to these two deductions is that you can only deduct an amount up to the value of your home. For example: Let's say your mortgage is \$150,000 and your home equity loan is \$75,000, but your home is worth \$200,000 - you'll only be able to deduct \$50,000.

If your Adjusted Gross Income is more than a certain amount (\$145,950 in 2005 for example), you fall into the high earner category. Allowable deductions are reduced by 3% of whatever you earned above the limit (see your tax accountant for further details).

DEDUCT THE PROPERTY TAX

You can deduct the real estate property taxes for the amount of time that you lived in the home in a given year. For example, if you bought the home in June, you can deduct the property taxes for June-December of that year. If you lived in the home for the entire year, you can deduct the property taxes for January-December.

DEDUCT THE POINTS

If you paid any points on your first mortgage, you can deduct them - even if they were actually paid by the seller. They can only be deducted in the year you paid for them (your first year in the home).

If you paid points on a refinance, then you'll probably have to deduct them slowly over the life of the loan. You'll be able to deduct a certain amount per month (ask your tax accountant for further details).

If you paid points on a refinance (or home equity loan or line of credit) and used the equity you accessed for home improvements, you may be able to deduct the cost of those points that year.

Points paid on a loan for a second home or vacation home will have to be deducted over the life of the loan.

DEDUCT A SECOND HOME

If you decide to purchase a 2nd home, which actually can include an RV (it has to have a bathroom and cooking facilities), you can deduct 100% of the interest. You can even rent out this second property and claim the deduction if you spend at least 14 days per year living there, or more than 10% of the days you rent the property out.



DEDUCT WHEN YOU SELL

If you make less than a \$250,000 profit (for single homeowners) or a \$500,000 profit (for married homeowners), you don't have to pay taxes on that profit if you owned the property for at least two years and lived in it for at least two out of five years of ownership.

DEDUCT HOME OFFICE EXPENSES

The rules regarding home office deductions have recently become less restrictive. A "home office" no longer has to be the only place you work or meet clients.

However, it does need to be used "exclusively and regularly" for business purposes to qualify for the tax deduction.

This means that you need to meet at least one of these criteria:

- ❖ Do you do most of your work in the home office? (This would likely apply to a freelance website designer for instance.)
- ❖ Do you use your home office for administration or management that you don't pay for anywhere else?
- ❖ Do you do most of your work outside your home but regularly hold business meetings in your home office?
- ❖ Is your home office housed in your garage or a separate unit such as a "mother-in-law suite?"



If you replace the carpet in your home office, paint the walls, upgrade your office furniture or equipment, you can depreciate the expenses up front or over time. See your tax accountant for further details on deducting home office expenses.

DEDUCT MOVING EXPENSES

If you're relocating for a job, many of your moving expenses may be deductible. The expenses you report must occur within one year after your first day on the new job. Additionally, you must prove that your new home is closer to your new job than your old home was and that your new job is at least 50 miles further from your old home than your old job was. See your tax accountant for specific deductions.

WHAT YOU CAN'T DEDUCT

You can't deduct homeowner association dues, extra payments you made on the principal or depreciation. Until recently homeowners were not allowed to deduct private mortgage insurance. However an act passed in congress in December 2006 may allow you to deduct PMI if you meet the income requirements and financed or refinanced your home in 2007. Please consult a qualified tax accountant.

