Home Buyer Tax Benefits

Your home provides many tax benefits -- from the time you buy it right on through to when you decide to sell. Here's a summary; for details, visit the IRS website at www.irs.gov.

*1. **Mortgage Interest** Interest that you pay on your mortgage is tax deductible, within limits. If you're married and filing jointly, you can deduct all your interest payments on a maximum of $1 million in mortgage debt secured by a first or second home. The maximums are halved for married taxpayers filing separately.You can't use the $1 million deduction if you pay cash for your home and later use it as collateral for an equity loan.*

If your lender required you to buy PMI (private mortgage insurance, often required when the loan is for more than 80% of the home's purchase price), the PMI premiums are tax-deductible for mortgages taken out in 2007 through 2011. However, the amount of the deduction depends on your income -- if your household earnings are over $100,000 per year, the deduction starts to phase out.

*2. **Points** Your mortgage lender will charge you a variety of fees, one of which is called "points." One point is equal to 1% of the loan principal. One to three points are common on home loans, which can easily add up to thousands of dollars. You can fully deduct points associated with a home purchase mortgage.*

Refinanced mortgage points are also deductible, but only over the life of the loan, not all at once. Homeowners who refinance can immediately write off the balance of the old points and begin to amortize the new.

*3. **Equity Loan Interest** You may be able to deduct some of the interest you pay on a home equity loan or line of credit. However, the IRS places a limit on the amount of debt you can treat as "home equity" for this deduction.*

Your total is limited to the smaller of:
$100,000 (or $50,000 for each member of a married couple if they file separately), or the total of your home's fair market value -- that is, what you'd get for your house on the open market -- minus certain other outstanding debts against it.

*4. **Home Improvement Loan Interest** If you take out a loan to make substantial home improvements, you can deduct the interest, with no dollar limit. However, the work must be a "capital improvement" rather than ordinary repairs.*

Qualifying capital improvements are those that increase your home's value, prolong its life, or adapt it to new uses. For example, qualifying improvements might include adding a new roof, fence, swimming pool, garage, porch, built-in appliances, insulation, heating/cooling systems, landscaping, or more. (Keep in mind that increasing the square footage of your home could trigger a reassessment and higher property taxes, though.)

Work that doesn't qualify for an interest deduction includes repairs such as repainting, plastering, wallpapering, replacing broken tiles, patching your roof, repairing broken windows, and fixing minor leaks. You might want to wait until you're about to sell to do such work, in order to gain the maximum tax benefits.

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*5. **Property Taxes** Often referred to as "real estate taxes," property taxes are fully deductible from your income. If you have an impound or escrow account, you can't deduct escrow money held for property taxes until the money is actually used to pay your property taxes. And a city or state property tax refund reduces your federal deduction by a like amount.*

*6. **Home Office Deduction** If you use a portion of your home exclusively for business purposes, you may be able to deduct home costs related to that portion, such as a percentage of your insurance and repair costs, and depreciation.*

*7. **Selling Costs** If you decide to sell your home, you'll be able to reduce your taxable capital gain by the amount of your selling costs. Real estate broker's commissions, title insurance, legal fees, advertising costs, administrative costs, and inspection fees are all considered selling costs.*

All selling costs are deducted from your gain. Your gain is your home's selling price, minus deductible closing costs, selling costs, and your tax basis in the property. (Your basis is the original purchase price, plus the cost of capital improvements, minus any depreciation.)

*8. **Capital Gains Exclusion** Married taxpayers who file jointly now get to keep, tax free, up to $500,000 in profit on the sale of a home used as a principal residence for two of the prior five years. Single folks (including home co-owners if they separately qualify) and married taxpayers who file separately get to keep up to $250,000 each, tax free.*

*9. **Moving Costs** If you move because you got a new job, you may be able to deduct some of your moving costs. To qualify for these deductions you must meet several IRS requirements, including that your new job must be at least 50 miles farther from your old home than your old job was. Moving cost deductions can include travel or transportation costs, expenses for lodging, and fees for storing your household goods.*

*10. **Mortgage Tax Credit** A home-buying program called mortgage credit certificate (MCC) allows low-income, first-time homebuyers to benefit from a mortgage interest tax credit of up to 20% of the mortgage interest payments made on a home (the amount of the credit varies by jurisdiction). The maximum credit is $2,000 per year if the certificate credit rate is over 20%. (See IRS Publication 530.) You must first apply to your state or local government for an actual certificate. This credit is available each year you keep the loan and live in the house purchased with the certificate. The credit is subtracted, dollar for dollar, from the income tax owed.*

Real Estate Deduction Information
For more information on real estate tax laws, visit www.irs.gov. You'll find basic information for first-time homeowners (IRS Publication 530) and publications about selling your house (IRS Publication 523), business use of your home (Publication 587), moving expenses (Publication 521), and home mortgage interest deductions (Publication 936).