

What Can You Deduct When You Own A Home

Federal tax laws give very favorable treatment to homeownership and offer a wide variety of tax deductions to make ownership more affordable and attractive to U.S. citizens.

For tax purposes, deductions for residential real estate held for personal use generally fall into two main categories:

- costs that can be deducted as expenses from a buyer's or seller's personal income on a tax return
- costs that can be used to alter the basis of the home, with the idea of lowering the capital gains

Note that a second, or vacation, home generally qualifies for all of the same deductions as a principal residence provided that it isn't rented for a significant portion of the year.

Buyers may deduct the following items associated with buying a home as expenses on their personal income tax in the year that they buy the home.

Points—including loan origination fees and loan discounts, provided that the home is your principal residence, the amount is clearly stated on the settlement statement, and the purchase meets the nine criteria for deducting points established by the IRS. (See www.irs.gov/prod/forms_pubs/pubs/p53001.htm for details on these criteria.)

If the buyer doesn't satisfy all of these criteria, points must be prorated and deducted over the life of the mortgage.

Buyers may add the following costs associated with a purchase to the basis of their home. These additions will increase the basis and serve to lower the capital gains liability when the home is eventually sold:

1. Transfer or stamp taxes and recording fees, if paid by the buyer.
2. Title abstracts.
3. Title insurance.
4. Attorney's fees for preparing their documents for closing.

Buyers **cannot** deduct as expenses on their income tax or add to the cost basis of the home:

1. Fees for an appraisal required by the lender.

2. Rent paid to occupy the home before closing.
3. Cost of credit reports.
4. Loan assumption fees.

During the period of homeownership, owners of single-family homes, condominiums, coops, and other types of property occupied as a principal residence may deduct the following items as expenses each year on their income tax returns:

1. Interest paid on a mortgage loan(s) of \$1 million or less taken out to buy, build, or improve a home. If the loan amounts you owe on your first and second home together exceed \$1 million, not all interest is deductible. Note that married couples filing separately may each deduct interest on a total mortgage debt of \$500,000.
2. Late payment charges on mortgage payments
3. Real estate taxes paid on the home in the year they are paid

Homeowners may not deduct:

1. Homeowners association dues or assessments.
2. Premiums for fire or homeowners' insurance. (Note that this is often included in the monthly house payment.)

At the time of the sale, the sellers may deduct the following expenses from their income taxes:

1. Any reserved real estate taxes credited to the buyer at closing. However, these deductions can't be taken until the year that the property taxes are actually paid to the taxing body.
2. Any mortgage interest paid for the portion of the year that the house was owned.
3. Any remaining, undeducted points for the satisfied mortgage.

In calculating the capital gains resulting from a sale, the sellers may add the costs following items to their existing basis:

1. Transfer or stamp taxes and recording fees, if paid by the seller.
2. Recording fees, if paid by the seller.
3. Attorney's fees for preparing their documents for closing.

4. Real estate commissions paid to a broker and sales associates.

5. Money spent to repair the house prior to sale, if spent within 90 days of the sale.

Tax laws can change frequently. Always consult an accountant or tax attorney if you have questions on real estate tax issues.