

## TAX BREAKS FOR HOMEOWNERS

**B**uying a home means having a place to call your own. It's also a great way to reduce your income tax bill. Here's how to keep your hard-earned dollars at home—where they belong.

### WHEN YOU BUY YOUR HOME

When you buy a home, you incur costs that may qualify as tax deductions. For example, points you pay on a mortgage to buy or build your personal residence are fully deductible the year you pay them. However, to deduct points and other qualified expenses you need to itemize your deductions on Schedule A.

### WHILE YOU OWN YOUR HOME

The biggest tax break associated with owning a home is the ability to deduct the interest you pay on the mortgage for your principal residence and, if you have one, a second home. This amount is generally shown on Form 1098, received annually from your lender. Late payment charges, which are additional interest, are also deductible.

Real estate property taxes are also deductible. New homeowners should be sure to deduct any pro-rated taxes collected at closing. These items are not always included on Form 1098, but should be itemized on your real estate closing statement (HUD-1). If you refinance your mortgage, then you may be able to write off the points paid for the old loan. However, points paid for refinancing must be deducted ratably over the life of the loan, rather than as a lump sum in the year they were paid.

There are two exceptions to this rule. First, homeowners who refinance more than once may deduct all remaining undeducted points on the prior refinanced loan in the year of the current refinancing. Second, the portion of the points allocable to the proceeds of a refinancing used for improvements may be deducted in the year paid.

If you borrow money against the value of your home in the form of a home equity loan, you can deduct interest paid on amounts up to \$100,000 of indebtedness.

What if your home is damaged or destroyed? If a sudden, unexpected event such as a fire, earthquake, storm, vandalism or theft results in

a loss to your property, the portion of the loss that is not covered by insurance is deductible. You must reduce the amount of the loss by \$100 and 10 percent of your adjusted gross income before deducting it.

### WHEN YOU SELL YOUR HOME

When you sell your principal home for a profit, you won't be taxed or even required to report the sale of your home unless your gain is more than \$500,000 for married taxpayers filing jointly or \$250,000 for single filers. To qualify, you must have owned and used your home as your principal residence for at least two of the five years immediately preceding the date of the sale. Generally, you can claim this exclusion only once in any two-year period. Another bonus: To qualify for the tax benefit, you don't have to buy another home with the sale proceeds.

Homeowners who must sell their principal home before meeting the ownership and residency requirements may be eligible for a partial exclusion if the sale was necessitated by a change in employment, health or unforeseen circumstances.

### WHAT'S NOT DEDUCTIBLE

While there are many homeowners' tax breaks, there are some expenses you must bear on your own. These include general closing costs and commissions paid to brokers and real estate agents at the time of purchase, as well as the cost of homeowners' insurance or private mortgage insurance to buy, build or improve your personal residence. Also not deductible are homeowner association and co-op dues and local assessments that increase the value of your neighborhood, such as new sidewalks.

Keep in mind, too, that the amount of your adjusted gross income can affect your ability to claim certain deductions. 

