

Ten tax tips for homeowners

By Erin K. Witt

It's that time of year again. Even though spring is right around the corner, many homeowners' thoughts are turning to a less pleasant subject—taxes.

However, for homeowners, there is lots of good news. Owning a home provides numerous opportunities for deductions and tax savings. Here are a few tips to help:

Tip #1: Mortgage interest. Joint tax filers can deduct all the interest on a maximum of \$1 million in mortgage debt secured by a first and second home, or half of that amount for married taxpayers filing separately. However, 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.

Tip #2: Points. Your mortgage lender may charge you a variety of fees, called points. A point equals 1 percent of the loan principal. One to three points can be common on home loans, which can easily add up to thousands of dollars. While you can fully deduct points associated with a home purchase mortgage, you cannot deduct a mortgage broker's commission. Refinanced mortgage points are also deductible, provided they are amortized over the life of the loan. Homeowners who refinance can immediately write off the balance of the old points and begin to amortize the new.

Tip #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 debt for this deduction. Your total home equity debt 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 minus certain other outstanding debts against it.

Tip #4: Home improvement loan interest. If you take out a loan to make substantial home improvements, you can deduct the interest on this loan. There is no dollar limit on this deduction, but the work must be a capital improvement. Capital improvements increase your home's value, prolong its life, or adapt it to new uses—like adding a fence, driveway, swimming pool, porch or deck, new built-in appliances, etc.

Tip #5: Property taxes. Property taxes are fully deductible from your income—but you can't deduct escrow money held for property taxes until the money is actually used to pay your property taxes. A city or state property tax refund reduces your federal deduction by a similar amount.

Tip #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.

Tip #7: Selling costs and capital improvements. 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. In addition, the IRS recognizes that costs ordinarily attributed to decorating or repairs—painting, wallpapering, planting flowers, maintenance, etc.—are also selling costs if you complete them within 90 days of your sale and with the intention of making the home more saleable. All selling costs are deducted from your gain—your home's selling price, minus deductible closing costs, minus selling costs, minus your tax basis in the property.

Tip #8: Capital gains exclusion. Thanks to the Taxpayer Relief Act of 1997, many home sellers no longer suffer a taxable gain. 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. Singles and married taxpayers who file separately can keep up to \$250,000 apiece tax-free.

Tip #9: Moving costs. If you move because you got a new job, you may be able to deduct some of your moving costs if you meet all of the following requirements:

- You must move within one year of starting your new job.
- Your new job must be at least 50 miles farther from your old home than your old job was.
- The distance between your new home and new job can't be greater than between your new home and new job, unless your new commute will save you time or money, or if your employer insisted on the move as a condition of your employment.
- You must work full-time at the new workplace for 39 of the 52 weeks following the move. If you are self-employed, you must work full-time for at least 39 weeks during the first 12 months and a total of 78 weeks during the first 24 months after arriving at the new job location.

Deductions include travel or transportation costs and expenses for lodging and storing your household goods.

Tip #10: Mortgage tax credit. This home buying program allows low-income first time homebuyers to benefit from a mortgage interest tax credit of up to 20 percent of the mortgage interest payments made on a home. This credit is available each year you keep the loan and live in the house purchased with the certificate.