Homeowner Tax Deduction List

By owning your home, you are eligible to receive many tax benefits throughout the time you spend in your home. Here are the top ten on the homeowner tax deduction list:

1. Mortgage Interest

After you purchase a home, you are allowed to deduct all of your interest payments on any mortgage up to $1 million. There are restrictions on this, however. First, you can only deduct the interest on a mortgage up to $1 million if you are married and filing jointly. If you are married and filing separately, both you and your spouse can only claim interest up to $500,000. Next, the mortgage debt must be secured by a first or second home. Lastly, if you paid in full for the house, you cannot later take out an equity loan with the house as collateral and deduct the interest on the home equity loan.

If your bank requires you to buy private mortgage insurance, those premiums are tax deductible for mortgages taken out between 2007 and 2010. However, the amount of the deduction is scaled back depending on your income. If you are earning more than $100,000 a year, then the deductions start to lessen the higher your income rises.

You can find out more about these deductions by visiting IRS Publication 936 , *Home Mortgage Interest Deductions*.

2. Points

One thing that many people fail to fully understand is the point system that mortgage lenders often use. Put simply, one point is equal to 1% of the principal of the loan. It is common to see fees in the amount of one to three points on a home loan. These fees are included on the income tax deductions list and can be fully deducted provided they are associated with the purchase of a home. If you are refinancing your home mortgage, then these points are still fully deductible, but must be done so over the life of the loan and not up front. Those that do refinance their homes can write off the remainder of their old points.

3. Equity Loan Interest

Some people may be able to deduct some of the interest paid on a home equity loan (line of credit) from their 1040s. However, the Internal Revenue Service limits the amount of debt that can be treated as home equity for this tax deduction. You are limited to deducting the smaller of:

- $100,000 if filing jointly, or $50,000 for each person of a married couple if filing separately; or
- Your home's total fair market value minus certain outstanding debts against the home.

You can read more about this deduction by reading IRS Publication 936 , *Home Mortgage Interest Deductions*.

4. Interest on a Home Improvement Loan

The fourth item on the tax deductions list is the interest on a home improvement loan. Many people find it necessary to take out a loan to make improvements to their homes, as well as for repairs and fixes. It is important to distinguish these two types of work, however, because only the interest on loans taken out for home improvements may be deducted from your income taxes.

A qualifying loan is one that is taken out to add "capital improvements" to your home, meaning the improvement must increase your home's value, adapt it to new uses, or extend its life. Examples of capital improvements are: adding a third bedroom, adding a garage, installing insulation, landscaping and more.

Loans that do not qualify for a home improvement loan interest deduction are those that are taken out for repairs only. Examples of repairs including painting, plastering, fixing broken windows, replacing cracked tiles and more. If you have repairs to make that can wait, you should wait until you are about to sell your home because then you may be able to

deduct these costs under the selling costs deduction.

5.Property Taxes

Property taxes are fully deductible from your income taxes on your Form 1040. However, if your money is being held in escrow for the purpose of paying property taxes, you cannot claim this deduction until the money is actually taken out of escrow and paid. In addition, if you receive a partial refund of your property tax, this reduces the amount of the deduction you can claim.

6. Home Office Deduction

If you use a portion of your home exclusively for the purpose of an office for your small business, you may be able to claim a deduction on your taxes for costs related to insurance, repairs, and depreciation. The IRS recognizes two times when you may claim a home office deduction:

- Part of your home is used exclusively and regularly as either your principal place of business, or a place where you meet and deal with customers or patients. If there is a separate structure attached to your home, then the regular and exclusive use does not also have to be your principal place of business; or
- Part of your home is used on a regular basis for storing things that are used in your business, such as product samples or inventory. In addition, this also encompasses home daycare facilities.

7. Selling Costs

After you have decided to sell your home, you may be able to reduce your income tax by the amount of your selling costs. These costs can include things like repairs, title insurance, advertising expenses, real estate broker's commissions, and inspection fees. However, the IRS only allows you to deduct repair costs associated with selling costs if the repairs are made within 90 days before the sale, and the repairs were made with the intention of improving the marketability of your home.

Selling costs are deducted from your gain on the sale. The gain on the sale of your home is found by taking the selling price and subtracting the closing costs as well as your tax basis. Your tax basis is a technical term which can be found by taking the original purchase price and adding the costs of any capital improvements you made to the home and finally subtracting any depreciation.

8. Capital Gains Exclusion

When you sell your home, you may be able to keep some of the profit as tax-free income. If you are married and filing jointly, you may claim up to $500,000 in profit from the sale of your home provided that you used the home as a principal residence for two of the previous five years. If you are filing either as single or married but filing separately, you may keep up to $250,000 of the profit tax-free.

9. Moving Costs

If a new job requires you to move so you can begin work, you may be able to deduct a portion of your moving costs from your income taxes. There are a couple of requirements that you must meet in order to be able to make these deductions. First, your new job must be at least 50 miles farther from your old home than your previous job was. Second, you must work full time for at least 39 weeks during the 12 months following your move. Moving costs deductions may include items such as transportation, lodging and storage fees.

10. Mortgage Tax Credit

A program that some states use is a mortgage credit certificate (MCC). The MCC program was designed to help low-income, first time homebuyers offset a certain portion of the mortgage interest on a new mortgage to help them qualify for getting a home mortgage. Traditionally, the MCC program allows qualified buyers to deduct up to 20% of their mortgage interest payments made on a home from their income taxes. To get started in the MCC program, you must apply with your state or local government to be issued a certificate. This credit is available for each year you own the home and is subtracted directly from the amount of income tax you owe.

For an overview of other items not listed here, please read IRS Publication 530 , *Tax Information for Homeowners*; IRS Publication 523 , *Selling Your Home*; IRS Publication 587 , *Business Use of Your Home*; IRS Publication 521 , *Moving Expenses*; and IRS Publication 936 , *Home Mortgage Interest Deduction*.

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