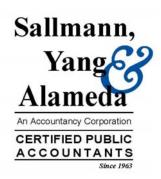


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# **Tax Strategies for Homeowners**

Be aware that important tax consequences are often associated with some fairly common events involving your home.

#### Home Purchase

When purchasing a home, you may pay a portion of the mortgage interest in advance. This loan origination fee, or "points", is a percentage of the total amount borrowed.

If points are paid for a principal residence, you generally can deduct the full amount in the year paid, even if the points were paid by the seller. One caution: you must reduce your home's tax basis (cost) by the amount of seller-paid points.

Of course, one of the greatest benefits of home ownership kicks in during the early years of the mortgage when most of your payments go toward tax-deductible interest.

#### **IRA** Withdrawals

The tax law allows penalty-free IRA withdrawals, up to a lifetime limit of \$10,000 for the purchase of a first home for you or members of your family. Withdrawals from Roth IRAs for qualifying first-home expenses can be both penalty-free and tax-free (after the Roth is five years old).

# Refinancing

What happens when you refinance? If you pay points, the general rule requires that you prorate the deduction over the life of the loan. However, if some of the refinance proceeds go towards home improvements, you may be able to take a portion of the points related to those improvements, as a current deduction.

# **Improvements**

If you take out a loan to make substantial improvements to your principal residence and the loan is secured by that property, the interest is generally deductible. Remodeling often increases the value of your property. Remodeling costs also increase the property's basis, potentially reducing capital gains tax if a future sale is partially or fully taxable.

Generally, other home improvement costs are not deductible, but if you upgrade your home for medical reasons – say, to add a wheelchair ramp or stair lift – you may be able to deduct a portion of the costs as a medical expense.

#### Home Office

The home office deductible can be another tax break of home ownership. If you use part of your home regularly and exclusively as a principal place of business, you may be able to deduct costs associated with that potion.

# Home Sale

When you sell a home that you have owned and used as your principal residence for at least two of the five years before the sale, you can generally exclude from taxation up to \$250,000 of profit if you are single and up to \$500,000 if you are married filing jointly. Profits in excess of those amounts are subject to regular capital gains rates and rules.

The definition of principal residence includes not only the convention single-family house, but also such homes as house trailers, mobile homes, houseboats, condominiums, cooperative apartments, and duplexes.

### Selling at a loss

Unfortunately, if you sell your home for less than you paid for it, you may not take a tax deduction for your loss.

Taxes often come into play for homeowners and it is important to be aware of the potential benefits and pitfalls. If you have questions or would like more information about any issues relating to your home and taxes, please contact our office.