TAXGUIDE
for homeowners

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Owning a home gives you tax benefits

Tax breaks for homeowners include –

- A deduction for real estate taxes (limits apply).
- Home acquisition interest deductibility is now based on $750,000 (formerly $1 million) of indebtedness.
- A deduction for losses that occur as a result of fire, storm, flood, earthquake or other casualty is only for federally declared disaster areas.
- A deduction for qualifying expenses if you conduct a business in your home or rent out your residence and meet other requirements in the tax law.

Home sale tax exclusion

Married taxpayers who meet eligibility requirements may exclude from taxation up to $500,000 of home-sale profits; singles may exclude up to $250,000.

To be eligible for the exclusion, a taxpayer must have owned the residence and occupied it as a principal residence for at least two of the five years prior to the sale. The exclusion may be used only once every two years.

A partial exclusion may be available where the taxpayer fails to meet the full exclusion eligibility requirements due to a job change, illness, or certain other unforeseen circumstances. The rules allow some flexibility in certain situations, so it's a good idea to get details on how a reduced exclusion might apply to specific circumstances.

Tax tips for homeowners

- If you itemize, points paid on home mortgages may be deducted in the tax year you pay them. You don't have to write a separate check for the points as long as you provide funds for items such as a down payment or escrow deposit at least equal to the points paid. In addition, the buyer can deduct points paid by the seller.

- Points paid on a refinanced mortgage do not qualify for current deduction; you deduct them pro rata over the life of the loan.

  There is an exception if part of the refinanced funds are spent on home improvements. You may be able to deduct the same percentage of points paid as the percentage of the loan that was used for improvements.

- If you refinance more than once, and in so doing pay off a prior refinancing, the balance of points not yet deducted becomes deductible in the year of the new refinancing.

- For new acquisition indebtedness, mortgage interest is deductible on indebtedness of no more than $750,000. Existing mortgages are unaffected by the new cap, as the new limits go into place for acquisition indebtedness after Dec. 14, 2017.

  You can also no longer deduct interest on home equity debt unless it is used to buy, build or improve your home.

Tax planning pointers

- The exclusion of gain for home sales applies to "principal residences." This definition includes more than just a house. A condominium, duplex, apartment, even a houseboat or yacht can qualify as long as it's your principal residence.

- The exclusion of gain can be applied to the sale of vacant land adjacent to your home which you used as part of your principal residence. The home must be sold within two years before or after the land sale.

- If you suffer a home casualty loss in a disaster that causes your area to be designated a federal disaster area, you have the option of taking the loss on your prior year's return. Amending the prior year can bring a quick refund that you can use to help repair your home.

- In your recordkeeping, be aware that home repairs do not increase your tax basis in a home, but capital improvements do. Typical repairs include painting, cleaning the furnace, and refinishing floors. Examples of improvements include substantial landscaping or remodeling the kitchen or other rooms.