<u>Tax Benefits of Buying / Owning A Home</u>

(PLEASE NOTE: THIS ARTICLE CONTAINS GENERAL INFORMATION ON POSSIBLE TAX DEDUCTIONS AVAILABLE TO HOMEOWNERS. THIS IS FOR <u>INFORMATION ONLY</u> AND IS <u>NOT</u> THE PROVIDING OF LEGAL OR TAX SERVICES. PLEASE CONSULT WITH YOUR ACCOUNTANT OR TAX ATTORNEY TO DETERMINE THE DEDUCTIONS THAT YOU MAY BE ELIGIBLE TO RECEIVE.)

When you purchase your home, you suddenly have a number of new expenses eating away at your budget. However, owning a home entitles you to claim a number of new income tax deductions that will help you recoup some of your costs. Knowing which costs can be deducted helps you know which receipts and records you need to keep to verify your deductions with the IRS.

Interest Paid

When you buy a house, you likely took out a loan called a mortgage to pay for it because you could not afford to pay the price in cash. The interest that you pay on the first $1 million of your mortgage debt, or the first $500,000 if married filing separately, can be deducted from your income taxes. If your mortgage amount is less than the limit for your filing status, you can deduct the entire amount of interest paid.

Private Mortgage Insurance

If your down payment totaled less than 20 percent of your home's value, your lender likely requires you to pay for Private Mortgage Insurance (PMI). This insurance protects your lender from losing money if you default on your loan. If you took out your mortgage after 2006 and your adjusted gross income falls below the annual limits, you can deduct the portion of your monthly payments that pay for PMI. As of 2011, you can claim the total PMI paid if your adjusted gross income falls below $100,000 or a partial deduction if your adjusted gross income falls below $109,000. If you are married filing separately, these limits are halved.

Origination Points

Origination points are fees related to the bank's cost of closing the loan. As long as they do not include costs that would usually be itemized, such as notary fees, these points are deductible.

Discount Points

When you purchased your home and took out a mortgage, you may have elected to pay for discount points. Discount points lower the interest rate on the mortgage. The IRS treats these costs as a form of prepaid interest and allows you to deduct the entire amount in the year that you pay them. For example, if you paid $3,730 in points, you could claim an extra $3,730 in deductions on your taxes for the year.

Property Taxes

When you purchase a home, you must begin paying property taxes. You can include property taxes imposed by state and local governments as long as they are charged based on the value of the property. You cannot include any charges for improvements to property, such as state or local assessments for streets, sidewalks or sewer lines.

Home Improvements

If you take out a loan to make a substantial home improvement that improves its value or makes it more efficient, you should be able to deduct the interest on your taxes.

Home Office Deduction

When you buy a home and use a room or portion of it as a home office for business, you can deduct the percentage of your home that you use for business on your taxes, including utilities and other home expenses (use Form 8829).

Like all of the other deductions listed, you must itemize your deductions with Schedule A to claim the property tax deduction.