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- In God We Trust -

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Dear Chuck,

Tax time can be a stressful time for everyone, inparticularlly home owners. Here is a few real estate deductions to help them get the best from their investment. Do you need help managing you client database? Call me for more information on IDM Contact Management.

Common Real Estate Tax Deductions

THE TAX ADVANTAGES OF HOME OWNERSHIP DID YOU BUY YOUR HOME LAST YEAR?

DEDUCT THE POINTS

If you bought a home last year, you may deduct many of the costs associated with your home loan or acquisition mortgage. Did your lender quote an interest rate plus points for the loan? A point equals one percent of the loan amount. Check your escrow closing statement for the amount of the loan fee or points, that amount qualifies as an itemized deduction. If you obtained a home improvement last year, the points are also deductible. With either a purchase or home improvement loan, you may have been charged a prorated interest amount for the month you closed escrow. Check your closing statement for this deduction. If you simply refinanced the loan on your home or borrowed against other real property to take cash out or secure a lower interest rate, the points or loan fees must be deducted annually over the life of loan. If you refinanced last year and forgot to deduct the points, prorated interest, or loan fees, you can take the deductions on this year's return.

PROPERTY TAX

If you bought property last year, escrow would prorate the portion of property tax paid by the seller. Your closing statement may reflect a property tax charge (deduction) from the date you took title to the property. The seller would have received a corresponding credit.

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However, if you agreed to pay the property tax owed by the Seller you could not claim that amount as a deduction but you could add it to our basis. Supplemental property tax payments are deductible for the tax year in which they are paid.

PREPAYMENT PENALTY

If you paid off an existing real property loan last year and were charged a prepayment penalty, that amount is tax deductible. Remember to deduct the interest amount if you prepaid your January home loan payment at the end of the previous year. If you assumed an existing loan, you may deduct any prorated interest is also deductible for a primary residence that will be completed and occupied within two years.

DID YOU SELL YOUR HOME FOR A PROFIT LAST YEAR?

If it was your primary residence for two of the last five years, up to \$250,000 in profit is tax-free for single taxpayers. Married couples have \$500,000 in tax free gain from a qualifying home sale. The two-year occupancy need not be continuous. Only one spouse need be on title but both must meet the residency requirement.

DIVORCED OR SEPARATED SPOUSES

As a general rule, no gain or loss is recognized on inter-spousal title transfers during marriage or divorce. However, an exception is made in cases where the spouses agree to delay the sale of their primary residence. For the welfare of the children, a divorce decree may allow one spouse to reside in the home until some time in the future when the property will be sold and the proceeds divided equally. If the resident spouse qualifies for the \$250,000 home sale exemption, the non-resident spouse also qualifies for the \$250,000 home sale exemption.

SURVIVING SPOUSE

The widow may claim the \$500,000 exemption if the home is sold during the year the spouse died. If the surviving spouse inherits the deceased spouse's half of the residence, the adjusted cost basis on the half is usually "stepped up" to market value on the date of the surviving spouse's taxable gain upon sale. In California as a community property state, the surviving spouse can usually claim a new stepped-up basis on the home's entire market value, thus resulting in little or no taxable sale profit.

HOUSE PARTNERS

Unmarried co-owners who sell their primary residence after two years may each claim the \$250,000 exemption. Up to four coowners can qualify and individually claim the exemption for a million dollars tax-free.

PERSONAL RESIDENCE EXEMPTION

As long as the taxpayer meets the two year residency requirement for each sale, the individual \$250,000 and the married \$500,000 tax exemptions can be claimed every two years.

DID YOU CHANGE JOBS AND RELOCATE?

A homeowner or renter can deduct almost all of their moving costs if your new job location is at least 50 miles further from your old home than your previous job. The second requirement is that you work at least 39 weeks in the vicinity of your new job location, 78 weeks for

self-employed persons. You do not need to itemize deductions to take advantage of the moving cost tax adjustment if your situation qualifies. The distance from your new job is not a consideration

HOW DO YOUR BASIS?

Basis is your starting point for figuring a gain or loss if you later sell your home, or for figuring depreciation if you later use part of your home for business purposes or for rent. While you own your home, you may add certain items to your basis. You may subtract certain other items from your basis. These items are called adjustments to basis.

FIGURING YOUR BASIS

How you figure your basis depends on how you acquire your home. If you buy or build your home, your cost is your basis. If you receive your home as a gift, your basis of the person is usually the same as the adjusted basis of the person who gave you the property. If you inherit your home from a decedent, the fair market value at the date of the decedent's death is generally your basis.

FAIR MARKET VALUE

Fair market value is the price that property would sell for on the open market. It is the price that would be agreed on between a willing buyer and a willing seller, with neither having to buy or sell, and both having reasonable knowledge of the relevant facts.

GIFT

If someone gave you your home and its fair market value when it was given to you was equal to or more than that person's adjusted basis, your basis is the same as that person's adjusted basis. If you received your home as a gift after 1976, add to your basis the part of any federal gift tax paid that is due to the net increase in the value of the home.

ADJUSTED BASIS

While you own your home, various events may take place that can change the original basis of your home. These events can increase or decrease your original basis. The result is called adjusted basis.

INHERITANCE

Your basis in a home you inherited is generally the fair market value of the home on the date of the decedent's death or on the alternate valuation date if the personal representative for the estate chooses to use alternative valuation. If an estate tax return was filed, your basis is the value of the home listed on the estate tax return. If an estate tax return was not filed, your basis is the appraised value of the home at the decedent's date of death for state inheritance or transmission taxes.

RECORDS TO KEEP

You may need to keep records relating to the basis of property longer than the period of limitations. Keep those records as long as they are important in figuring the basis of the original or replacement property. Generally, this means for as long as you own the property and, after you dispose of it, for the period of limitations that applies to you.

ENERGY CONSERVATION SUBSIDY

If a public utility gives you (directly or indirectly) a subsidy for the purchase or installation of an energy conservation measure for your

home, do not include the value of that subsidy in your income. You must reduce the basis of your home by that value. An energy conservation measure is an installation or modification primarily designed to reduce consumption of electricity or natural gas or to improve the management of energy demand.

PROPERTY TRANSFERRED FROM A SPOUSE

If your home is transferred to you from your spouse, or from your former spouse as a result of a divorce, your basis is the same as your spouse's (or former spouse's) adjusted basis just before the transfer.

COST AS BASIS

The cost of your home, whether you purchased it or constructed it, is the amount you paid for it, including any debt you assumed. The cost of your home includes most settlement or closing costs you paid when you bought the home. If you built your home, your cost includes most closing costs paid when you bought the land or settled on your mortgage.

PURCHASE

The basis of a home you bought is the amount you paid for it. This usually includes your down payment and any debt you assumed. The basis of a cooperative apartment is the amount you paid for your shares in the corporation that owns or controls the property. This amount includes any purchase commissions or other costs of acquiring the shares.

CONSTRUCTION

If you contracted to have your home built on land that you own, your basis in the home is your basis in the land plus the amount you paid to have the home built. This includes the cost of labor and materials, the amount you paid the contractor, any architect's fees, building permit charges, utility meter and connection charges, and legal fees that are directly connected with building your home. If you built all or part of your home yourself, your basis is the total amount it cost you to build it. You cannot include the value of your own labor or any other labor you did not pay for.

REAL ESTATE TAXES

Real estate taxes are usually divided so that you and the seller each pay taxes for the part of the property tax year that each owned the home. If you pay any part of the seller's share of the real estate taxes (the taxes up to the date of the sale), and the seller did not reimburse you, add those taxes to your basis in the home. You cannot deduct them as taxes paid. If the seller paid any of your share of the real estate taxes (the taxes beginning with the date of sale), you can still deduct those taxes. Do not include those taxes in your basis. If you did not reimburse the seller, you must reduce your basis by the amount of those taxes.

CLOSING COSTS

If you bought your home, you probably paid settlement or closing costs in addition to the contract price. These costs are divided between you and the seller according to the sales contract, local custom, or understanding of the parties. If you built your home, you probably paid these costs when you bought the land or settled on your mortgage. The only closing costs you can deduct are home mortgage interest and certain real estate taxes. You deduct them in the year you buy your

home if you itemize your deductions. You can add certain other settlement or closing costs to the basis of your home.

POINTS PAID BY THE SELLER

If you bought your home after April 3, 1994, you must reduce your basis by any points paid for your mortgage by the person who sold you your home. If you bought your home after 1990 but before April 4, 1994, you must reduce your basis by seller-paid points only if you deduct them.

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