

The Tax Advantages of Homeownership

Owning your own home can be a very rewarding experience — especially when tax time rolls around. Three tax items in particular — the mortgage interest deduction, the property tax deduction and the capital gains exclusion — can provide significant financial benefits to home owners when the time comes to settle up with Uncle Sam.

Mortgage Interest Deduction

The interest you pay as part of your mortgage payment is deductible on your federal tax return and may also be on your state income tax return depending on where you live.

This deduction applies to first and second mortgages, up to \$1 million of mortgage debt. Your lender should provide you with one or more IRS Form 1098s, which will provide the amount you may claim on your tax return. To benefit from this deduction you must itemize your deductions using a Schedule A Form.

You may also deduct the interest on money you borrow against your home to finance housing or non housing-related expenses. An example is a home equity loan, which many home owners use to remodel their home, pay off credit card bills, buy a car, finance a vacation or pay for educational expenses.

Property Tax Deduction

State and local taxes paid on the assessed value of the home are also deductible on your federal return. Like the mortgage interest deduction, itemizing is necessary if you wish to deduct property tax payments.

Notably, for many home owners the combined deductions for mortgage interest and property taxes exceed the standard deduction — currently between \$5,450 and \$10,900, depending on filing status. When this is the case, home owners are able to deduct or “write-off” many other items including charitable contributions, state income or sales taxes, medical and dental expenses, tax preparation fees and other miscellaneous allowable deductions, which collectively can reduce your federal and state income tax liabilities dramatically. Research by economists at the

National Association of Home Builders indicates that for the typical home owner, these savings can exceed \$8,000 in the first year of homeownership.

Capital Gains Exclusion

Perhaps the biggest advantage to owning a home is the ability to avoid paying capital gains when it is sold. Under current law, married home owners filing jointly may exclude up to \$500,000 of capital gains and single tax filers may exclude \$250,000 from taxation. This exclusion applies only if you have lived in your primary residence for two years or more. But the exemption may be used repeatedly as long as the residency rules are met.

The tax benefits conferred on home owners by the federal government are substantial. Annual benefits, such as the mortgage interest deduction and the property tax deduction, along with the less frequently used benefit of the capital gains exclusion, make homeownership more tax advantageous than almost any other investment. Take advantage of it!

Be sure to consult your tax advisor about the deductions you may be eligible to claim.

To see the many more reasons homeownership benefits you, visit www.nahb.org/forconsumers.