

## Homeowner Tax Tips by Michael J. Pilato, CFP®, CPA

### 1. NEW TAX ACTS & DEVELOPMENTS:

- i. **Mortgage Forgiveness Debt Relief** – In most circumstances, discharge of debt is considered taxable income. This new tax law permanently excludes from income discharges of up to \$2 million of indebtedness secured by a principal residence. This includes indebtedness incurred in the acquisition, construction, or substantial improvement of the principal residence.
- ii. **First-Time Homebuyer Credit** – This new law gives first-time homebuyers a temporary refundable credit (essentially a loan from the government) equal to 10% of the home purchase price up to \$7,500. The credit phases out for taxpayers with adjusted gross income between \$75,000 and \$95,000 (\$150,000 and 170,000 for taxpayers filing jointly). The credit is effective for homes purchased on or after April 9, 2008 and before July 1, 2009. The credit must be repaid in equal installments over 15 years, interest free beginning 2 years after the year in which the residence is purchased. A person is considered a first-time homebuyer if they (or their spouse) had no ownership interest in a principal residence during the 3-year period before the new home is purchased.
- iii. **Property Tax Deduction for Non-Itemizers** – This new law gives non-itemizers a limited deduction for real property taxes by increasing the amount of their standard deduction by the lesser of \$500 (\$1,000 for joint filers) or the amount of real property taxes paid during the year.
- iv. **Social Security Number Protection** – This new law allows sellers of real property to provide an affidavit stating they are not nonresident aliens to the title or escrow company facilitating the closing of the sale in lieu of providing their social security numbers.
- v. **Florida Grants to Homeowners Program** – The IRS approved a special Florida program that provides free home inspections and grants of up to 50% of the cost of implementing recommendations to make the residences more hurricane resistant. The grants are limited to owners of homes that have insured values of \$300,000 or less. In the IRS's view, the grants paid to these homeowners are akin to general welfare payments and not taxable income.

### 2. CURRENT TAX LAWS:

- i. **State Sales Tax Deduction** – If you use the tables provided by the IRS to calculate your state sales tax deduction, you can add sales tax paid on home building materials to build or improve your home.
- ii. **Premiums for Mortgage Insurance** – Premiums paid for mortgage insurance are deductible as mortgage interest. The deduction is phased out for incomes exceeding \$100,000. The deduction is for premiums paid on policies issued after 2006.
- iii. **Residential Energy Property Credit** – A tax credit of up to \$500 is available to individuals for nonbusiness energy property, such as residential exterior doors and windows, insulation, heat pumps, furnaces, central air conditioners, and water heaters.
- iv. **Origination Fees or Points** – These fees are fully deductible when paid on the acquisition of a new personal residence. If you pay these fees on a mortgage refinance or a 2<sup>nd</sup> mortgage, you have to amortize the cost over the life of the loan. For example, if you paid points of \$1,500 on a refinance of your home mortgage, you can deduct \$50 each year if the mortgage term is 30 years. If you payoff the refinance early, you can deduct the remaining amount of points not yet deducted. Also, if you pay any prepayment penalties when paying off a mortgage early, you can deduct the amount of the penalty.
- v. **Real Property Taxes** – These taxes are deductible in the year paid. Also, if you purchased or sold a home in the current year, you may have paid a pro-rata portion of property taxes, which will appear on your closing statement. If so, the portion of property taxes paid are deductible.

Reference: Income Tax Update 2008 by James R. Hasselback.

Disclaimer: Please consult with a professional tax advisor to determine which of these credits and deductions apply to you because tax forms and rules change periodically.