Fidelity National Title

Trusted everywhere,
every day.

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 since that amount qualifies as an itemized deduction. If you obtained a home improvement loan 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 the 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. 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 your basis. Supplemental property tax payments are deductible for the tax year in which they were 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, which 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 tax-free for single tax payers. 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 their primary residence. For the welfare of the children, a divorce decree may allow one spouse to reside in the home until some time it 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 co-owners 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.

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 own 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.

HOW TO FIGURE 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 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.

Contact me today for instant access to information
about how we can make your transaction a success.

Trusted everywhere,
every day.