HOMEOWNER'S

TAX GUIDE

IMPORTANT TAX INFORMATION EVERY HOMEOWNER SHOULD KNOW

INTRODUCTION

U.S. taxpayers have enjoyed specific tax be[illegible]e ownership since personal income tax was introduced by the [illegible]mend[illegible]1913. While these benefits may not be the primary reasons motivati[illegible]n to b[illegible]me, they are still tangible and not available to tenants.

A principal residence[illegible]is t[illegible]ce you live or expect to return. You may only have one principa[illegible]e. [illegible] confusion comes because a taxpayer can deduct the interest a[illegible] on two homes on the Schedule A of their tax return. O[illegible]f the hon[illegible]the p[illegible]cipal residence and the other is a second home which is [illegible] proper[illegible]

Rental pro[illegible] al[illegible] section 1231 property, is used for income purposes. It [illegible]udes ho[illegible]dos, apartments, shopping centers, office buildings, warehouses and any improve[illegible]perty that generates rental income. It's eligible for qualified exchanges.

[illegible]rop[illegible]ty is rental property that is used for personal purposes less than 14 days or les[illegible]ear or 10% of the total time it is rented.
[illegible]nt property is real estate primarily held for an increase in value. It can be [illegible]ved property or vacant land. Income tax on the gain may be deferred through the use of qualified exchanges.

NOTE: The information contained in the guide is for information purposes only. Consult with your tax professional before making decisions that can affect you individually based on your specific situation.

MORTGAGE INTEREST DEDUCTION

Acquisition Debt is the borrowed amount used to buy, build or improve a principal residence or second home. Under the Tax Cut and Jobs Act, mortgages taken after 12/14/17 are limited to a combination of $750,000 on the first and second homes. The mortgage interest on this debt is tax deductible when itemizing deductions.

It is a dynamic number that is reduced with each payment as the unpaid balance goes down. The only way to increase acquisition debt is to borrow money to make capital improvements.

Prior to the new law, homeowners could additionally borrow up to $100,000 of home equity debt for any purpose and deduct the interest when itemizing deductions. Mortgage interest on home equity debt has been repealed through 12/31/2025 unless it is for capital improvements.

Acquisition debt cannot be increased b[illegible] refinancing. Some confusion occurs bec[illegible] mortgage lenders are concern[illegible] makin[illegible] loans that will be repaid ac[illegible] term[illegible] the note and using the home as [illegible] not include making a tax-dedu[illegible] Another thing th[illegible] adds confusi[illegible] is that the le[illegible] annually rep[illegible] much interest was [illegible] but only t[illegible] unt that is attributabl[illegible] acqu[illegible] is ded[illegible]tible.

[illegible] the respon[illegible] er to know what [illegible] of their mo[illegible] bt is deductible. The challenge beco[illegible] ore difficult after a cash-out [illegible] ome[illegible] s should keep records of [illegible] nd c[illegible] ital improvements and consult with the[illegible] professional.

[illegible] ge placed on a home within 90 days of [illegible] chase date is considered acquisition debt. This could be an important thing to be aware of because occasionally, a buyer will pay cash for a home fully intending to put a mortgage on the home later and expect to deduct the interest. If a mortgage isn't placed on the home within the first 90 days, the acquisition debt is considered zero.

POINTS

Points are a financing term representing one percent of the mortgage. If a $100,000 mortgage had three points attached to it, it would be 3% of the $100,000 or $3,000.

Points are considered pre-paid int[illegible] d therefore deductible in some s[illegible] s.

Points are deductible by the bu[illegible] y are paid to buy, build, or improve a pr[illegible] sidenc[illegible] The points may [illegible] e paid by the buye[illegible] Points are co[illegible] ed paid by the bor[illegible] amount paid [illegible] t money, down pa[illegible] , or impounds are e[illegible] r greater t[illegible] the amount of [illegible] d.

[illegible] oints a[illegible] ortized [illegible] e of the mortgage if [illegible] y ar[illegible] to refinan[illegible] principal residence. If [illegible] paid in points to refinance a home for 30 [illegible] e homeowner can deduct $100 per year in i[illegible] The balance of points can be deducted in the [illegible] mortgage is paid in full.

[illegible] oints paid by the seller for the benefit of the buyer [illegible] y not be deducted as interest by the Seller. The Seller can treat the points as any other selling expense to arrive at the net selling price of the property.

Points are not deductible in full when a home is refinanced. Only the portion of the points that represent new borrowed funds used to buy, build or improve the home would be deductible. The balance of the points paid on a refinance would be deducted ratably over the life of the mortgage.

STANDARD OR ITEM

Taxpayers can decide each year whe take the standard deduction their ite d deductions when filing th l inc tax returns.

Beginning in 2018, the standa ucti available t ayers, rega f whe they own ,000 for d filing jointly and 00 taxpay Let's look a xamp ple purchasing a $300,000 n at 5% erest. The interest would be $14,630 and p y taxes are estimated at les p uld be $4,500.

The i and property taxes would provide a com d total of $19,130 which is less than 000 standard deduction. Unless ypothetical couple has more itemized deductions like charitable contributions, they would benefit more from taking the standard deduction.
If the mortgage rate were at 8%, the combination of taxes and interest would be almo 00 which would make itemizing the deduc ore beneficial.

erty taxes on a principal residence and a cond home can be itemized deductions on Schedule A but have been limited under the TCJA of 2017. The limitation is referred to as "SALT" and allows an itemized deduction of up to $10,000 for the total of state and local property, income or sales taxes. This $10,000 limit applies for both single and married filers and is not indexed for inflation.

Tax professionals will compare the itemized or standard deduction alternatives to determine which one will benefit the taxpayer most.

EXCLUSION OF GAIN ON PRINCIPAL RESIDENCE

Homeowners can exclud[illegible] ,00[illegible] the [illegible] n their principal residence if single and up to $500,000 if married fil[illegible] five [illegible] eriod ending on the date of the sale, the taxpayer must have:

» O[illegible] home for a[illegible] two y[illegible]
» [illegible] e as the[illegible] home for at least two years
» O[illegible] ship[illegible] do not [illegible] e to be continuous nor occur at the same time

[illegible] ring the tw[illegible] g on the date of sale, the taxpayer is not eligible if they excluded the [illegible] n on sale [illegible] home.

[illegible] on th[illegible] s exceeds the exclusion amount, the balance is taxed at the long-term capital [illegible] Cap[illegible] assets, such as a home, that are owned for more than 12 months are subject to the fav[illegible] e long-term capital gains rate which is lower than the ordinary income rate or marginal tax brack[illegible]

Federal Tax Bracket	10%	12%	22%	24%	32%	35%	37%
Long-term cap gains rate	0%	0%	15%	15%	15%	15%	20%

COST BASIS OF A HOME

[illegible] a ho[illegible]s the cost of the home and is used to determine the tax liability. [illegible]ing [illegible]wnership, the basis can increase or decrease depending on adjustments. A typica[illegible]mple could be:

[illegible]se Price:	$150,000
[illegible]us allowable closing costs:	$1,700
Plus capital improvements:	$25,000
Adjusted Basis:	$176,700

HOME RECEIVED AS INHERITANCE

The basis of the home becomes the fair market value on the date of the decedent's death as established by the executor with the aid of an appraisal or letter of value from a licensed real estate professional. The "stepped up" basis benefits the person inheriting the home by eliminating the gain because the basis would equal the fair market value.

Example of Home Received as Inheritance

Decedent's basis in home: $100,000
Fair market value of home at time of death: $250,000
Stepped up basis in inherited home: $250,000
Potential gain avoided: $150,000

Surviving Spouse Example

Basis in jointly owned home $100,000
Fair market value of home at spouse's death [illegible]
Surviving spouse's new adjusted basis $150,[illegible]

SALE OF HOME BY SURV[illegible]POUS[illegible]

Special consideration is m[illegible]IRS fo[illegible] sa[illegible] jointly [illegible]wned principal residence after the death of a spo[illegible]e n[illegible]ual[illegible]xclude up to $500,000 of gain instead of the $250,000 [illegible]o[illegible]eopl[illegible]ertain requirements are met. The sale needs to take plac[illegible]ore[illegible] years after the date of death of the spouse.

Surviving [illegible]s[illegible]t have re[illegible]d as of the sale date.
The home [illegible] hav[illegible]d as [illegible] principal residence for two of the last five years prior to the[illegible]h.

[illegible]he home m[illegible]e been owned for two of the last five years prior to the death.
S[illegible]r can [illegible]ny time when spouse owned the home as time they owned it and [illegible]he h[illegible] was the spouse's residence as time when it was their residence.
[illegible]eit[illegible]ouse may have excluded gain from the sale of another principal residence durin[illegible] last two years prior to the death.

[illegible] have been widowed in the last two years and have substantial gain in your principal residence, it would be worth investigating the possibilities. Time is a critical factor in qualification. Contact your tax professional for advice about your specific situation. See IRS Publication 523 – surviving spouse.

HOME RECEIVED AS A GIFT

If the donor's adjusted basis at the time of the gift was more than the fair market value of the home, the basis is the same as the donor's adjusted basis at time of the gift. If the donor's adjusted basis at the time of the gift was Equal to or less than FMV at that time and [illegible] received the gift after 1976, the basis is the same as [illegible] donor's adjusted basis plus the part of fede[illegible]ft tax paid that is due to the net increase in va[illegible] home.

Example of Home Received as [illegible] Gift

Donor's basis in home $[illegible]
Fair market value of home a[illegible] [illegible]000
Donee's basis in home $100,[illegible]
Potential gain [illegible]000

GIFT OR I[illegible]

[illegible]on called [illegible] talk [illegible]ogram with a [illegible]ation that wa[illegible]g to the caller and disturbing bas[illegible]e po[illegible]ax liability that may have been [illegible]

The calle[illegible]derly father had deeded his home to his [illegible] ew years earlier because, in his mind, his [illegible] was going to get the home eventually and [illegible] would be one less thing to be taken care of after his death. The daughter didn't really care because the father was going to continue to live in the home and take care of it so that it would be no expense to her.

Obviously [illegible] to either the fathe[illegible] the d[illegible]er, tra[illegible] the title [illegible]me from [illegible]n to a[illegible] significant tax [illegible]. In th[illegible] the father "gave" the h[illegible] his dau[illegible] also gave her the [illegible] home whi[illegible] is basically what he paid [illegible] she sells the home in the future, the gain [illegible] the difference in the net sales price and [illegible]er's basis which could be considerably h[illegible]n had she inherited it.

If the home was purchased for $75,000 and worth $250,000 at the time of transfer, there is a possible gain of $175,000. However, when a person inherits property, the basis is "stepped-up" to fair market value at the time of the decedent's death. If the adult child inherited the property at the time of the parent's death, their new basis would be $250,000 or the fair market value at the time of death and the possible gain would be zero.

In most cases, there are less tax consequences with inheritance than with a gift. There are other factors that may come into play but being aware that there is a difference between a gift and inheritance is certainly an important warning flag that would indicate that expert tax advice should be sought before any steps are taken.

THE TAX DIFFERENC[illegible] IN SECOND HOME[illegible]

A principal residence and a s[illegible]d hom[illegible]ve [illegible] similar [illegible]efits, but they have some major tax differences. A principal r[illegible] the p[illegible]y h[illegible]here you live and a second home is used mainly for personal enjoyment wh[illegible] [illegible]ntal [illegible]y to a maximum of 14 days per year.

Under the 2017 [illegible]x Cuts and J[illegible] the [illegible]ge Interest Deduction allows a taxpayer to deduct the qualifie[illegible]nd propert[illegible] on a [illegible]ncipal residence and a second home. The interest was reduc[illegible]um of $1,[illegible]00 combined acquisition debt to a maximum of $750,000 combined a[illegible]tio[illegible]both th[illegible]st and second homes.

[illegible] gain on a [illegible] retained the exclusion of $250,000/$500,000 for single/married [illegible]payers mee[illegible]equirements. Unchanged by the new tax law, the gain on second homes must be recognized wh[illegible] or disposed of.

[illegible] exc[illegible]nges are not allowed for property used for personal purposes such as second homes. Gain o[illegible]nd homes owned for more than 12 months is taxed at the lower long-term capital gains rate.

OVERLOOK RECORDK[illegible]IG

Homeowners are familiar that they can dedu[illegible] the interest and property taxes from thei[illegible] tax returns. They also understand that t[illegible] substantial capital gains exclusion for qua[illegible] of up to $250,000 if single an[illegible]0,000 [illegible] filing jointly. However, ong[illegible]ep[illegible]end[illegible] to be overlooked.

New homeown[illegible] should get in[illegible]bit o[illegible] all receipts a[illegible]ork for any [illegible]ements or repairs to th[illegible] homeo[illegible]need to be reminded [illegible]ell i[illegible] have [illegible]come lax in doing so.

[illegible]se expendit[illegible]t necessarily benefit in the annual tax filing [illegible]y become valuable when it is [illegible]e h[illegible]ecause capital improvements [illegible] or [illegible]st of the home.

F[illegible]r inst[illegible], let's say a single person buys a [illegible] home that appreciates at 6% a year. [illegible]e years from now, the home will be worth $700,000. $250,000 of the gain will be exempt with no taxes due but the other $100,000 will be taxed at long-term capital gains rate. At 15%, that would be $15,000 in taxes due.

[illegible] during the time the home was owned [illegible] variety of improvements totaling $100,000 [illegible]en made. The adjusted basis in the home [illegible] $450,000 and the gain would only be $2[illegible]00. No capital gains tax would be due.

Some repairs may not qualify as improvements but if the homeowner has receipts for all the money spent on the home, the tax preparer can decide at the time of sale. Small dollar items can really add up to substantial amounts over many years of homeownership.

The important thing is to establish a habit of putting receipts for home expenditures in an envelope, so you'll have them when you are ready to sell.

MORTGAGE LOANS FROM RELATIVES

Occasionally, when dealing with close relatives that also might become heirs, signing a note and handling the paperwork properly may seem like a needless effort but it could mean the difference in being able to take a legitimate interest deduction.

Home mortgage interest is deductible only if the loan is a secured debt which involves the buyer signing an instrument like a mortgage or deed of trust that makes the ownership of the home security of the debt.

That instrument must then be recorded or other perfected according to state or local law and th home, in case of default, must be able to atisfy t debt.

In a family situation, a parent, grandp t r relative may loan a buyer oney t rc home because they h vaila nd earning much in certific mig offer to loan it for a rate e wh ntional lender is ch ing but witho ees.

While it e a win- ation, there could be lem re no one correctly. Even if th ower ayments, they are ot entitle ction unless they meet he three c d above:

deb ment specifying the terms g a record the debt properly and 3) T me is sufficient collateral for the loan.

d be prudent to consult with an attorney efore you sign the final settlement papers to be comfortable that both buyer and the lender relative are complying with IRS regulations.

For more information, see IRS Publication 936 – Home Mortgage Interest.

HOMEOWNER'S TAX WORKSHEET

Part 1 - Basis of Residence

Purchase Price	$
Less Personal Property Items	-
Plus Purchase Costs to be added to Basis	+
Basis at Time of Purchase	$
Plus Capital Improvements	+
Adjusted Basis	$

Part 2 - Computation of Gain

Selling Price of Residence	$
Less Personal Property Items	-
Less Expenses of Sale *(taken from closing statement)*	-
Net Selling Price	$
Less Basis of Residence Sold	-
Gain on Sale (realized gain) *(if zero or less, enter zero)*	$
Less Exclusion Allowed	-
Taxable Gain (recognized gain)	$

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HOMEOWNER'S TAX WORKSHEET

Sale of a Principal Residence

The Internal Revenue code allows a homeowner to a specific amount of gain from a princi[illegible] residence based on a taxpayer meeting certain requirements.

However, most homeowners don't take advantage of all the adjustments in order to [illegible] as low as possible. If the truth could be told, most people's records are so poor that w[illegible]e comes to recognize the gain, the calculations probably have to be based on estimates i[illegible]f actual numbers.

Rules to be eligible for Exclusion

- Qualifying home must be used as your principal resi[illegible] of the [illegible]din[illegible] This exclusion does not apply to vacation or 2nd [illegible]
- Effective for sales on or after May 7, 1997.
- Couples filing joint returns can [illegible] $500,[illegible]n on sale of principal residence. Single return filers can exclude [illegible]0.
- Gain in excess of [illegible]xclus[illegible]tax[illegible]propria[illegible] capital gains rate.

Part 1 - Basis of Re[illegible]e

Pur[illegible] - the form st[illegible] with th[illegible]ginal purchase price of the home. This would be the pr[illegible]n the closi[illegible]ment at the time of purchase.

Pers[illegible]opert[illegible] [illegible]st of personal property that was included in the purchase price must [illegible]nt. If no actual value was assigned to the property at the time of purcha[illegible]rvative estimate should be used.

[illegible]chas[illegible] - Included here are closing costs that the homeowners paid for the acquisition of [illegible]ome[illegible]t were not expensed in the year of purchase. Costs to acquire the loan and reserves for [illegible]ance cannot be deducted or capitalized.

Total Basis at Time of Purchase - this is the figure that is arrived at by subtracting the personal property items from the purchase price, then adding the unexpensed closing costs and then, subtracting the cumulative deferred gain.

continue to next page...

HOMEOWNER'S TAX WORKSHEET

Capital Improvements - IRS allows a homeowner to take the costs of capital improvements and add them to the basis of their home in order to accurately reflect the true gain in a property when it is sold. The problem is that many people find it hard to distinguish a capital improvement from a repair.

A repair is considered to be maintenance of an existing item such as fixing a dripping faucet, ad[illegible] coolant to an air conditioner, or replacing a broken window. However, a capital improvement is [illegible] something that adds value to the residence either by materially adding features or extending the li[illegible] expectancy of the improvement.

A good record should be kept of capital improvements and it needs to be [illegible]ed with receipts and canceled checks. To avoid controversy at some point in the future, a photog[illegible] help prove tha[illegible] the improvement was actually made.

The basic questions to determine if an expenditure qual[illegible] capita[illegible]vement [illegible]

#1 Does it materially add value to the prope[illegible]

#2 Does it extend the life of the proper[illegible]y?

#3 Does it adapt a portion of the h[illegible] new u[illegible]

Capital improvements can include such it[illegible]s[illegible]ping, s[illegible]sments, remodeling, swimming pool, counter-tops[illegible]he like. [illegible]lac[illegible]tems a[illegible] such as installing carpet where there had previou[illegible] on[illegible] upg[illegible]ount can be added. For instance, if the home had a builder's grad[illegible]e[illegible]laced[illegible] more expensive line, only the difference between the builder's grade [illegible]rep[illegible] be a[illegible]ded as a capital improvement.

An adj[illegible]ualty losses [illegible] be ma[illegible]e in this location on the form. A casualty loss is any actual n[illegible]y[illegible]e to the p[illegible] you may have suffered but were not reimbursed for out of insuranc[illegible]eeds.

Adjusted B[illegible]oinat[illegible] of the total basis at time of purchase and the total capital improvements is called the [illegible] basis.

HOMEOWNER'S TAX WORKSHEET

Part 2 - Computation of Gain

Selling Price of Old Residence - the sales price of the property that is being sold is placed in this blank. I[illegible]gure shown on the closing statement and sales contract.

Less Personal Property Items - An adjustment is made to determine the value of the real property b[illegible]actual dollar value was attached to the personal property, the IRS allows the value to be estimated. Unlike the [illegible]n Part 1, t[illegible] larger the value of personal property declared here, the smaller the gain. Therefor[illegible] don't undervalue pe[illegible]

Expenses of Sale - The sales expenses or sales costs of the old residence are [illegible] to be subtracted from [illegible]ales price of the old residence less personal property items in order to accurately refle[illegible].

Typical fees paid are brokerage fee, loan fees, title insurance[illegible]ney fee[illegible]ellaneous fees. Points paid by a seller are not interest but are treated lik[illegible]ales cos[illegible]are basis [illegible]s.

However, a pre-payment penalty is considered i[illegible]st and [illegible]here but as interest paid on a personal residence and is reported on Schedule A of the 1040 F[illegible]

Net Selling Price - the price that th[illegible] property [illegible]fo[illegible]rsonal [illegible]ems and expenses of sale in order to accurately reflect what the sell[illegible]recei[illegible]r t[illegible]rty.

Basis of Residence Sold - inse[illegible]thi[illegible]djust[illegible]asis that was calculated in Part 1.

Gain on Sal[illegible]tracting the ad[illegible]asis fr[illegible]e net selling price, the gain on sale is ascertained.

Examples o[illegible]al [illegible]ts

Trees	[illegible]	Paneling	Patio	Built-in Bar	Dish Antenna
[illegible]abinets	[illegible]g System	Garage Addition	A/C System	Special Assessments	New Flooring
Bookcases	[illegible]atio Cover	Room Addition	Deck Installation	Patio Extension	New Roof
[illegible]/Shrub[illegible]	[illegible]rmanent Barbecue	Driveways	Trash Compactor	Complete Repainting	Sun Shades
[illegible]n	Fencing/Gates	Wallpapering	Storm Windows	Drapery Rods	Walkways
Pet Ru[illegible]els	Wall Mirrors	Solar Panels	Carport Addition	Garage Door Opener	Carpeting
Built-i[illegible]	Renovations	Dead Bolts	Lawn Installation	New Plumbing	Water Heater
[illegible]es	Burglar Alarm System	Grading Soil	Electric Wiring	Fireplace Addition	Planter Boxes
[illegible] Softener	Basement Finishing	Insulation	Architect Fees	Removing Title Clouds	Shelving
Garbage Disposal	Intercom System	Sidewalks			

For more information on this subject, see IRS Publication 523

CAPITAL IMPROVEMENT REGISTER

List the capital improvements made during the ownership period. Record any item that would not be considered a maintenance item. Later, it can be scrutinized by your professional tax preparer. Keep receipts and cancelled checks to verify the expenditure.

DATE	VENDOR	DESCRIPTION	AMOUNT

CAPITAL IMPROVEMENT REGISTER

List the capital improvements made during the ownership period. Record any item that would not be considered a maintenance item. Later, it can be scrutinized by your professional tax preparer. Keep receipts and cancelled checks to verify the expenditure.

DATE	VENDOR	DESCRIPTION	AMOUNT