

# Homeownership Can Bring Big Savings at Tax Time

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As the April 15<sup>th</sup> federal income tax filing deadline approaches, millions of Americans are sitting down and sorting through dozens of forms to determine how much money they owe Uncle Sam – or, how much of a refund they will get this year. One of those forms, the Mortgage Interest Statement Form 1098, can mean big savings for home owners at tax time.

Form 1098, which home owners receive from their lenders, shows the total amount of mortgage interest paid during the year. Those who itemize their federal income tax deductions can deduct 100 percent of their mortgage interest payments on a first or second home for up to \$1 million of mortgage debt. They can also deduct the interest paid on up to \$100,000 of home equity loans.

For most home owners, this means they can deduct ALL of the interest they've paid on their home each year. But, the ability to deduct home mortgage and home equity loan interest isn't the only tax benefit of owning a home.

The three most important sources of tax savings for home owners are:

- Deductions for mortgage interest
- Deductions for real estate taxes
- The capital gains exclusion for the sale of a principal residence

Home owners are also able to deduct the state and local real estate taxes they pay each year on an owner-occupied home.

When it is time to sell a home, in many cases owners don't have to pay capital gains tax on the profit from the sale. Under present law, married couples who have owned and occupied their principal residence for at least two of the past five years do not have to pay any taxes on the first \$500,000 in profits from the sale of their home. Single filers earn up to \$250,000 tax free.

Another deduction home owners may be able to take is for mortgage insurance premiums. Generally, people who purchase a home without putting 20 percent down have to buy mortgage insurance, and those premiums can also be deducted from taxable income.

Even home owners who don't use the home as their principal residence and rent it out may be able to enjoy some tax benefits, including interest and depreciation deductions.

Buying a home offers tax savings that can add up to tens of thousands of dollars over several years. Home owners rely on the mortgage interest deduction each year to help offset the costs of homeownership, and prospective buyers take the deduction into consideration when choosing homeownership over renting.

But the mortgage interest deduction, which has been included in the tax code for about 100 years, is in danger. A national deficit commission has proposed reducing or eliminating the deduction as part of a restructuring of the tax code.

Find out more about the threat to the mortgage interest deduction, and read "The Tax Benefits of Homeownership," a study from economists at the National Association of Home Builders that provides specific examples of savings for a variety of income levels and ownership situations, at [www.SaveMyMortgageInterestDeduction.com](http://www.SaveMyMortgageInterestDeduction.com).