



Tax Season Guide #6 – Benefits of Home Ownership

I was raised to believe adult life follows a specific course. You meet your love, get married, buy a house and raise kids... in that order. Well it hasn't quite gone that way. I fell in love, we bought a house, then registered our domestic partnership (as close to marriage as we can get at this point) and we've yet to decide the kid factor.

I quickly learned the fairy tale doesn't mention money or the financial aspect of living. It definitely doesn't mention the benefits of homeownership. So to continue where the fairy tale leaves off...here are some points to keep in mind:

MORTGAGE INTEREST

Mortgage interest is any interest you pay on a loan secured by your home. It can be your main home or a second home. The loan may be a mortgage to buy your home, a second mortgage, a line of credit, or a home equity loan.

Let's use a \$200,000, 30 year fixed at 7% for example. Over the life of the loan you will pay back the principal plus \$279,017.80 in interest. Borrowing \$200,000 ends up costing \$479,017.80!

Fortunately there is one way to ease the blow of the extra expense of borrowing money. Mortgage interest is deductible. It can be your fairy godmother at tax time.

In order to qualify, you must meet three conditions—no ruby slippers required.

- You must file Form 1040 and itemize deductions on Schedule A (Form 1040).
- You must be legally liable for the loan. You cannot deduct payments you make for someone else if you are not legally liable for the payments. If you are unmarried, make sure you are on the loan (and hopefully the title) to the property.
- The mortgage must be a secured debt on a qualified home. "[Secured debt](#)" and "[qualified home](#)".

As a tax professional I am asked one question more than any other. "How do my partner and I split mortgage interest on our taxes when we both contribute to the monthly payments?" The answer is fairly simple. If you and your partner are both on the mortgage you can share the interest deduction by deducting the portion you actually paid.

Analyze [your actual tax liability](#). It is most likely that one of you will benefit more than the other for the mortgage interest deduction. The person who will benefit most should make the majority of the payments. Agree to the percentage each of you will pay and claim, and use it consistently.

Remember, you can only take credit for the amount you actually spend. Keeping clear, concise records is extremely important. If you have separate checking accounts, write the mortgage payment out of your own account for more clarity.

If you paid three-fourths of the mortgage and your partner paid one-fourth, you can claim three-fourths of the mortgage interest and your partner one-fourth. At the end of the year your mortgage company (or companies) will send you a form 1098, Mortgage Interest Statement. Check the totals they report against your check register or receipts. If you find errors, please contact your banks customer service department.

TIP: Each of you should each keep copies of the 1098 Mortgage Interest statements. Keep this back up documentation with your tax records should any questions arise.

You don't have to claim a consistent percentage year after year. In some years one of you may benefit from claiming more mortgage interest than the other. Analyze your financial position frequently. If changing the amount of mortgage interest you pay is advantageous, discuss it with your partner and keep clear written documentation.

INITIAL HOME PURCHASE

Most of your home purchase expenses are not deductible. Your settlement statement lists numerous fees and taxes. You can't usually deduct those expenses. However, you can deduct any pro-rated interest payments made at closing. Look for the line indicating pro-rated interest on your Mortgage Settlement Statement. For more information refer to [IRS Publication 936](#).

SALE OF YOUR HOME

When you sell your home you may be able to exclude your profit—up to \$250,000 for single filers (\$500,000 for married couples). This is contingent upon ownership & use tests, and a few other details. For more information refer to [IRS Publication 523](#).

HOME EQUITY LINES OF CREDIT

Homeowners often like to have a reserve of cash they can tap into for emergencies, home repairs, and debt consolidation. Our banks offer home equity lines of credit, or HELOCs, for such purposes. Borrow what you need and pay back the principle with interest. Having access to a HELOC can support your journey of homeownership.

HELOC interest is tax deductible, just like mortgage interest. For example, assume you have a credit card with a high balance and a high interest rate. Tax wise, there is nothing you can do with that interest. Credit card interest, and other personal interest, is not deductible. However, if you pay off your credit card balance with your HELOC, the



interest you pay on your HELOC will be tax deductible. (With certain limitations, of course.) Consult your tax pro or financial planner for more information about debt consolidation!

STATE AND COUNTY BENEFITS

Depending on your state and county of residence, you may be eligible for additional benefits. For example, when my partner added me to the title of our house, our county waived the transfer taxes because we've been registered domestic partners for more than one year.

We researched this prior to purchasing our home but didn't get written confirmation of the waiver. Since it's a little known law, our subsequent inquiries didn't confirm our original finding. Our mortgage broker wasn't sure, calls to the staff of the county office didn't help clarify. Finally our title company representative said "that sounds familiar" and checked it out. Fortunately we saved thousands of dollars avoiding the 1% transfer tax fee.

Research the local benefits for your area. Keep notes of the information you receive, and take advantage of any breaks available to you. Click [here](#) for links to your local government's website.