

Top 10 Tips

Assist In Tax Preparation



Have you ever forgotten to claim a tax deduction until after you sent your tax returns to the IRS? Fortunately, tax returns can be amended up to three years from the date they were due. But it's better to claim all the deductions when the tax return is filed because amended tax returns often trigger a tax audit before the IRS will issue a refund check. This is especially true if you bought, sold or refinanced your home—you may have forgotten to claim some big tax deductions. Here are the most often forgotten real estate tax deductions:

1. Deduct Principal Residence Acquisition Mortgage Fee If You Bought A Home Last Year. If you bought your principal residence last year and if you paid the mortgage lender a loan fee, usually called "points," (each point equals 1 percent of the amount borrowed), that "home acquisition mortgage loan fee" is tax deductible as itemized interest on Schedule A of your tax returns.

But don't count on your mortgage lender to include this loan fee on your annual IRS Form 1098 sent to you reporting annual mortgage interest paid. Some lenders only report your monthly interest payments, neglecting to remind you of the deductible loan points you paid to obtain the home acquisition mortgage. Your best proof of loan fee payment to obtain the home mortgage is your closing statement received when the acquisition mortgage was recorded.

2. Remember To Deduct Home Mortgage Refinance Loan Fees Over The Life Of The Home Loan. If you refinanced your home loan or obtained another type of real estate loan, any loan fee or points you paid can only be deducted over the life of the mortgage, such as 15 or 30 years.

To illustrate, suppose you paid a \$2,000 loan fee to refinance your 30-year home mortgage. Rather than deduct the full \$2,000, as you could do when obtaining a home acquisition mortgage, because it is a refinanced home loan all you can deduct is \$66.67 annually for the next 30 years.

For this reason, when refinancing a home mortgage, many borrowers prefer to get a so-called "no cost" mortgage without any loan fee or points. The general rule is for each loan-fee point paid, the mortgage interest rate should decline by one-eighth percent. To avoid the hassle of remembering to deduct the small loan fee amount each year for 15 or 30 years, many refinancing home loan borrowers prefer to pay a slightly higher loan interest rate. Another reason to avoid paying a loan fee when refinancing is most home loans are paid off in less than 10 years, either due to property sale or a subsequent mortgage refinance.

3. Deduct Undeducted Loan Fees From A Prior Home Loan Refinance. If you refinanced a previously refinanced home loan, don't forget to deduct any remaining undeducted loan fee in the tax year of the second refinance. For example, suppose you refinanced your home mortgage last year and had \$1,500 undeducted loan fees from a prior refinance. That \$1,500 is fully deductible as itemized interest in the tax year of the second refinance.

4. Deduct Any Mortgage Prepayment Penalty You Paid. Many home loans have prepayment penalties if they are paid off early, usually within the first three to five years. If you paid a prepayment penalty because you sold the home or refinanced, the prepayment penalty qualifies as deductible itemized interest.

5. If You Changed Job Location And Your Residence, Your Moving Costs May Be Deductible. Whether you are a renter or a homeowner, you may qualify for the moving-cost deduction if you changed both your job site and your residence but were not reimbursed for household moving costs. This can be a big tax deduction, especially if you made a major cross-country move to take a new job. Use IRS Form 3903 to calculate and claim this deduction.

To qualify, the distance from your old residence to your new job location must be at least 50 miles further from your old home than was your old job location. For example, suppose your old home was three miles from your old job location. In this example, if your new job site is at least 53 miles (3 plus 50) from your old home, you can qualify.

After you pass the distance test, the second moving-cost deduction test requires you to be employed at least 39 weeks during the 52 weeks in the vicinity of your new job location. You need not work for the same employer. Either spouse can qualify. If you are self-employed, however, you must work at least 78 weeks during the next 24 months in the vicinity of your new worksite.

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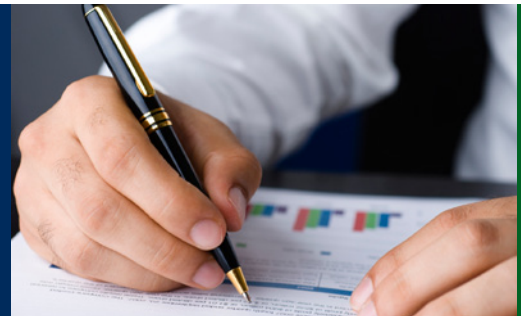


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6. Remember To Deduct Any Casualty Loss. If you suffered a “sudden, unusual or unexpected” loss, such as fire, flood, hurricane, tornado, earthquake, mudslide, theft, accident, water damage, riot, embezzlement, vandalism, snow, rain and ice storm, but were not paid by insurance or other reimbursement, you may be able to claim a casualty loss tax deduction.

However, slow losses are not deductible. Non-deductible examples include termite damage, dry rot, dry well, rust, corrosion, plant loss, moth damage, Dutch elm disease, erosion and mold. To qualify, the casualty loss deduction must exceed 10 percent of your adjusted gross income, plus a \$100 “floor” per casualty event. Use IRS Form 4684 to calculate your deductible amount. But be aware you will need proof of loss, such as your uninsured repair cost. Replacement estimates alone usually are not enough if you didn’t repair or replace.

7. Deduct Prorated Property Tax In Year Of Home Sale Or Purchase. An easily forgotten deduction in the year of a home sale is your share of the prorated property taxes. This deduction is usually paid to the local tax collector as part of the sale closing procedure so you might not have a cancelled check or other proof of payment. Your closing settlement statement should show your prorated property tax share, based on the number of days you owned your home during the tax year.

8. Deduct Prorated Mortgage Interest In The Year Of Home Sale Or Purchase. If you bought your home last year and either assumed or purchased “subject to” its existing mortgage, you are entitled to deduct your prorated interest share for the month the sale closed. Again, the buyer and seller’s shares are usually calculated on their closing statements, even if the other party made the actual interest payment to the mortgage lender.

9. Deduct Prepaid Property Taxes And Mortgage Interest. Millions of U.S. homeowners prepay their property taxes and mortgage payments each December even though these payments are not due until the next year. The reason is these payments are deductible in the tax year of actual payment. Not all local property tax collectors allow early payments, but many do. If you prepaid your January mortgage payment in late December, be sure your lender received the payment and included it on your IRS Form 1098.

10. If Your Home Is On Leased Land You May Be Entitled To Deduct Ground Rent. If your home is one of the millions located on leased land, and if you have an option to buy that land, your ground rent payments may be deductible as itemized interest. Internal Revenue Code 163(c) permits homeowners living on leased land to deduct their ground rent payments if (a) the ground lease is for at least 15 years, including renewal periods, (b) the land lease is freely assignable to the buyer of your residence, (c) the land owner’s interest is primarily a security interest (like a mortgage), and (d) you have a current or future option to buy the land under your home.

If your situation does not meet all four of these tests, your ground rent payments are not deductible. For example, if you rent a “pad” or “lot” in a mobile home park, your monthly rent paid to the park owner is not deductible unless you have at least a 15-year lease with a purchase option

Additional Homeowner Deductions: Although rarely forgotten, additional homeowner deductions include the property taxes and mortgage interest. However, payments into your escrow impound account with your mortgage lender do not become deductible until the loan servicer actually remits the money to the local tax collector. Most lenders include the deductible property tax and mortgage interest amounts on the borrower’s annual IRS Form 1098. Of course, if you pay your property taxes directly without an escrow account, then your lender won’t include that amount on your Form 1098.

If you were among the more than 12 million home buyers and sellers last year, you probably paid additional closing costs such as transfer tax, recording fees, escrow, title, or attorney fees, and other non-deductible expenses. Home buyers should add these nondeductible expenses they paid to their purchase price cost basis for the house or condo. Residence sellers should subtract these costs paid as sales expenses from their home’s gross sales price. For full details on these and other homeowner and real estate investor tax benefits, please consult your tax advisor.

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