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New homeowners can get big deductions on income taxes

by Robyn Friedman, Special to the Sun-Sentinel

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With April 15 less than a month away, many taxpayers are procrastinating, trying to avoid preparing their 2003 tax returns -- and paying their taxes -- until the last possible moment. But not David Moran. He can't wait to complete his tax return because of all the benefits he will reap as a new homeowner.

As a result of the mortgage interest and property tax deductions, Moran will save $900 in taxes for the one month that he owned the house last year.

Moran, a financial adviser for Bernstein Investment Research and Management in West Palm Beach, and his wife, Jeri, purchased a 3,000-square-foot, four-bedroom, three-bathroom house in Boca Raton in December. "The biggest tax benefit for us is the deduction for mortgage interest," he said. "There clearly are many benefits to home ownership."

No kidding. Homeowners are treated to benefits from Uncle Sam anytime they purchase or sell a home. Tax advantages also accrue during the period that somebody owns a home. That's why many people consider home ownership to be the ultimate tax shelter.

"You have to factor your tax benefits into your monthly payment," Moran said. "People don't often do that, but there's a big bonus come tax time for being a homeowner."

Here are a few benefits that home purchasers can look forward to taking:

Mortgage interest.

Interest paid on a mortgage on a first -- or even second -- home is deductible for those who itemize. Usually, the entire interest portion of the mortgage payment is deductible; there are, however, limitations if your total mortgage balance is more than $1 million ($500,000 if married filing separately) or if you took out the mortgage for reasons other than to buy, build or improve your home. The amount of interest you can deduct will be listed on the Form 1098 you receive from your lender. If you closed on a home last year, however, examine the form carefully. It might not reflect all of the points or prepaid interest you paid at the closing.

Points.

Points -- also known as origination fees or discount fees -- that are paid to your lender to secure a mortgage, are deductible because they are considered prepaid interest charges. You can deduct the full amount of points in the year paid if you meet all of the following requirements:

(a) your loan is secured by your main home.

(b) paying points is an established business practice in your area.

(c) the points paid were not more than the usual amount charged in the area.

(d) you use the cash method of accounting.

(e) the points were not paid in place of items such as appraisal fees, inspection fees, title fees, attorney fees, taxes, etc.

(f) the purpose of the loan was to buy or build your main home.

(g) the points were computed as a percentage of the principal amount of the mortgage.

(h) the points are clearly indicated on your settlement statement.

(i) you put cash into your home purchase in an amount at least equal to the points you were charged.

Important note: the rules governing deductibility of points paid in connection with a refinance may differ.

Property taxes.

Real estate taxes based on the assessed value of your home and paid to a state or local government can be deducted in the year paid by those who itemize. You can deduct those taxes you pay either directly to the taxing authority or through an escrow account. Your bank will provide you with a statement of the actual amount of taxes it pays from your escrow account -- only that amount may be deducted and not the total amount you pay into the escrow account.

If you purchased a home in 2003, carefully examine your settlement statement. You can deduct any property taxes you paid to reimburse the seller for taxes that he prepaid.

"People often get tripped up by the way that things are reported on the settlement statement they receive at closing," said Rich Shavell, president of Shavell & Co. PA, a Boca Raton-based accountant who specializes in construction and real estate taxation. "They might not have written a check for real estate taxes, but if they were charged at closing for a portion of the taxes for the year, they can deduct it."

Although there are other benefits that accrue to new homeowners as well -- deductions for business use of the home, for example -- mortgage interest, points and property taxes are the largest line items for those who itemize.

Coming next week: Tax benefits for those who sold a home in 2003.

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