

# The Tax Benefit of Homeownership

## **Home mortgage interest deduction:**

The interest paid on a mortgage or mortgages of up to \$1 million for a principal residence and/or second home is deductible as an itemized deduction. In the early years of a home loan most of the payments consist of interest, so this deduction is particularly substantial during the first years of homeownership.

Depending on the state a buyer lives in and his or her tax bracket, this deduction can reduce the cost of borrowing by one-third or more.

## **Home equity loan deduction:**

Homeowners can borrow up to \$100,000 against the equity in their home and deduct the interest as an itemized deduction. The money can be used for any purpose, such as paying off high-interest credit card debt. In contrast, the interest on credit card debt is not deductible.

## **Property tax deduction:**

Homeowners also get to deduct from their federal income taxes the state and local property taxes they pay on their home. This is another itemized deduction that renters don't get.

## **Deductible home buying expenses:**

Various closing costs ordinarily involved in a home purchase are also deductible as itemized deductions, including loan origination fees (points), prorated interest on a new loan, and prorated property taxes paid at settlement.

## **\$250,000/\$500,000 home-sale exclusion:**

Perhaps the greatest tax benefit of owning a home comes when a person sells it at a profit. Homeowners who lived in their home for two of the prior five years prior to its sale need pay no income tax on a substantial amount of their profit -- \$250,000 for single homeowners and \$500,000 for married homeowners who file jointly. This exclusion can be used once every 24 months.

## **14 days of free rental income:**

Another little known tax benefit of owning a home is that the owner can rent it out for up to 14 days during the year and pay no tax at all on the rental income. In contrast, a renter who sublets his or her rental must pay income tax on all the rental income he or she earns.

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