

## The Tax Benefits of Owning a Home

**Home Mortgage Interest Deduction:** The amount of 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. This type of deduction is particularly substantial during the first years of homeownership as the early years of a home loan consist mainly of interest. This deduction can reduce the cost of borrowing by one-third or more depending on the state a buyer lives in and his or her tax bracket.

**Home Equity Loan Deduction:** Homeowners may 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.

**Property Tax Deduction:** Homeowners can deduct the state and local property taxes they pay on their home from their federal income tax return, an itemized deduction that is not in place for renters.

**Deductible Home Buying Expenses:** Various closing costs surrounding 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:** A home owner's greatest tax benefit comes when a person sells at profit. Home owners who have lived in their home for two of the five years prior to sale 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 may only be used once every 24 months.

**14 Days of Free Rental Income:** A 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.