

# 10 real estate tax breaks you should know

**1. DEDUCT LOAN FEE "POINTS" PAID TO OBTAIN A "HOME-ACQUISITION MORTGAGE."** If you bought a house or condo in 2006 as your principal residence, you probably paid the mortgage lender loan-fee "points." One point equals 1 percent of the amount borrowed.

When the purpose of the loan was to acquire your residence, the loan fee is tax-deductible as itemized interest. However, many mortgage lenders "forget" to include this loan fee, which can be several thousand dollars, on the borrower's year-end IRS Form 1098 mortgage interest report.

For example, suppose you obtained a \$300,000 mortgage to buy your house or condo (not a rental property). You paid a one-point loan fee of \$3,000 to the lender. Because it was a primary-residence, home-acquisition mortgage, that \$3,000 fee qualifies as a Schedule A itemized interest deduction on your tax returns.

Double check the lender's 1098 interest report to be certain it includes loan-fee points. If not, add them to your itemized deduction. The best proof is your closing settlement statement.

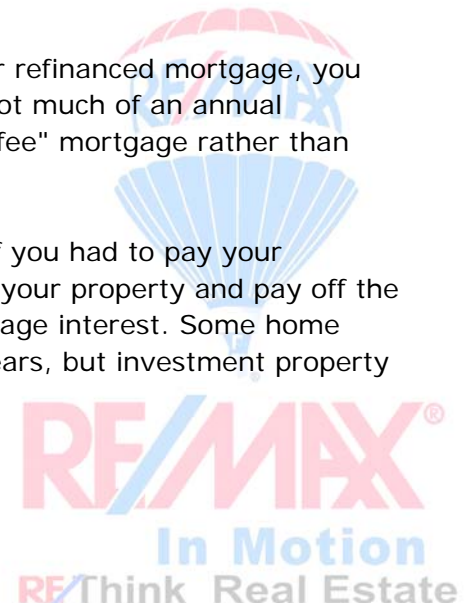
**2. DEDUCT AMORTIZED MORTGAGE REFINANCE FEES PAID TO THE LENDER.** If you refinanced your home loan in 2006 (probably to get rid of an adjustable-rate mortgage or reduce your interest rate), or obtained a new or refinanced mortgage on a rental investment property and paid the lender a loan fee, usually called points, that fee is deductible over the life of the mortgage.

The reason many borrowers pay a loan fee on a refinanced mortgage is paying points slightly lowers interest rate. The general rule is for each one point (1 percent) loan fee paid, the interest rate should drop at least one-eighth to one-fourth percent.

But it is very easy to forget this deduction because it is often a small annual amount. Suppose you refinanced your home loan (or the mortgage on your vacation second home). Because it was not a home-acquisition mortgage, the loan fee must be amortized (deducted) over the life of the mortgage.

To illustrate, if you paid a \$2,000 loan fee to obtain a new 30-year refinanced mortgage, you can deduct \$66.66 each year for the next 30 years. Because it's not much of an annual deduction, which is easy to forget, it's often wiser to obtain a "no fee" mortgage rather than pay a loan fee for other than a home-acquisition mortgage.

**3. DEDUCT MORTGAGE PREPAYMENT PENALTY YOU PAID.** If you had to pay your mortgage lender a prepayment penalty, either to refinance or sell your property and pay off the old mortgage, that prepayment penalty is tax-deductible as mortgage interest. Some home loans have these prepayment penalties during just the first few years, but investment property mortgages often have them for many more years.



**4. DEDUCT PRIOR HOME-LOAN REFINANCE FEES.** If you have not fully deducted mortgage refinance loan fees from a previous refinance, or you paid in full a mortgage on any property with un-deducted loan fees, remember to deduct those fees in the year the mortgage was paid in full.

To illustrate, if you refinanced or sold a property in 2006 with \$3,000 of remaining undeducted mortgage loan fees, that \$3,000 became fully deductible in the year the mortgage was paid in full (either by refinancing or by sale of the property).

**5. REMEMBER TO DEDUCT MOVING COSTS IF YOU CHANGED JOB LOCATION AND YOUR RESIDENCE IN 2006.** Whether you are a renter or a homeowner, if you changed both your job site and your residence location in 2006, you might be eligible for the often-overlooked moving-expense deduction.

To qualify for this sometimes-huge tax deduction of several thousand dollars, your new job location must be at least 50 miles further away from your old home than was your old job site. The residence change must occur within 12 months before or after the job location change. It doesn't matter if you change employers or become self-employed.

For example, suppose it was three miles from your old home to your old job location. But your employer moved to a new location, which is 60 miles from your old home. If you also changed your residence location within 12 months, your moving costs qualify in this example as tax deductions because the new job was more than 53 miles away.

Use IRS Form 3903 to calculate and claim your moving-cost deductions. However, as this form explains, you must work at least 39 weeks during the next 52 weeks in the vicinity of the new work site. If you are self-employed you must work at least 78 weeks during the next 104 weeks in the area of your new job location. Either spouse can qualify, but part-time work doesn't count.

**6. DEDUCT ANY UNINSURED CASUALTY LOSS.** Another often-forgotten tax deduction has the misleading name of a casualty-loss deduction.

If you suffered a fully or partially uninsured "sudden, unusual or unexpected loss" in 2006, you qualify. Examples include losses from fire, flood, hurricane, tornado, earthquake, mudslide, theft, accident, water damage, riot, vandalism, embezzlement, snow, rain and ice.

However, slow losses do not qualify, such as termite damage, rust, erosion, mold, corrosion, dry well, moth damage, dry rot, beetles and Dutch elm tree disease.

The casualty-loss tax deduction must exceed 10 percent of your 2006 adjusted gross income, plus a \$100 "floor" per casualty event. To illustrate, suppose your uninsured casualty loss was \$5,000 and your 2006 adjusted gross income was \$30,000. That means you qualify for a deduction of \$5,000 minus \$3,000 minus \$100, or \$1,900.



**7. DEDUCT PRO-RATED PROPERTY TAX IN YEAR OF HOME SALE OR PURCHASE.** Many home sellers and buyers forget to deduct their share of the pro-rated property taxes in the year of sale or purchase. Your best proof of payment is the closing settlement statement, even if the other party to the sale actually paid the tax collector.

**8. DEDUCT PRO-RATED MORTGAGE INTEREST FOR HOME SALE OR PURCHASE.** If you bought or sold your home in 2006, and you assumed an existing mortgage, bought "subject to" or relinquished a mortgage, remember to deduct your share of the pro-rated mortgage interest for the month of the home sale or purchase. Again, the closing settlement statement is the best proof.

**9. DEDUCT PREPAID PROPERTY TAXES AND MORTGAGE INTEREST.** My personal favorite, often-overlooked deduction is prepaid property taxes and mortgage interest.

For example, in December 2006 I prepaid my January 2007 mortgage payment, thus entitling me to deduct the substantial amount of prepaid mortgage interest. In addition, I prepaid my 2007 property taxes in 2006, entitling me to another large 2006 tax deduction. However, not all local tax collectors will accept property tax prepayments.

**10. IF YOUR HOME IS ON LEASED LAND, DEDUCT GROUND RENT.** Thousands of homeowners are not aware of this little-known tax deduction if they pay ground rent.

To qualify, 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 the home; (c) the land owner's interest is primarily a security interest (similar to a mortgage); and (d) you have a current or future option to buy the land beneath your home.

If your situation meets all four of these tests, your ground rent payment to the landowner is tax-deductible as itemized interest. However, if you rent a "lot" or "pad" in a mobile home park, your monthly rent paid to the park owner is not deductible unless you have a 15-year or longer lease with a land purchase option.

**HOMEOWNER NON-DEDUCTIBLE PAYMENTS.** Nondeductible payments into a mortgage escrow impound account held by your mortgage lender are not immediately deductible. However, when the mortgage lender remits money from your escrow account to the local property tax collector, then the property taxes paid become deductible. But personal-residence insurance payments are not tax-deductible.

Of course, if you pay your property taxes direct to the local tax collector, as millions of homeowners do, your property tax payment becomes deductible when paid.

If you bought or sold a home in 2006, you probably paid closing costs such as a transfer tax, recording fees, escrow, title or attorney fees, sales commission and other nondeductible charges. Home buyers should add these nondeductible fees to their purchase price cost basis. But home sellers should subtract these nondeductible costs from their gross sales price. Full details on these and other homeowner and real estate tax deductions are available from your tax adviser.

