

Tax Advantages of Home Ownership

Buying a home is one of the smartest purchases you can ever make. One reason is that homeownership has many positive tax implications. The three **most important sources of tax savings for home owners** are the:

- deductions for mortgage interest
- deductions for real estate taxes
- capital gain exclusion for the sale of a principal residence

The deductions for mortgage interest and real estate taxes reduce the annual cost of homeownership by reducing the home owner's tax liability each year. For example, a home owner with \$10,000 in annual mortgage interest payments and real estate taxes and who falls in the 25 percent tax bracket could realize up to \$2,500 in tax savings each year. Home owners who itemize their taxes can deduct from taxable income interest allocable to a first or second home for up to \$1 million of mortgage debt and \$100,000 of home equity loans. And most state and local taxes paid on homes are also deductible.

When the home is sold, the capital gain exclusion can again provide home owners a tax benefit. Under present law, sellers of a principal residence can exclude from taxation profits from the sale of a home, up to \$500,000 for married taxpayers and \$250,000 for single taxpayers. With capital gain tax rates expected to increase from 15 to 20 percent in coming years, these tax savings can be substantial.

Research by NAHB economists has estimated the tax savings for home owners for certain income and mortgage amounts. For a married couple with an income of \$80,000 per year and an initial mortgage amount of \$250,000, the tax savings from the mortgage interest and real estate tax deductions are estimated to save the couple more than \$11,000 in the first five years of homeownership. Assuming the couple owns the home for twelve years, these savings grow to more than \$25,000 over the time period. Combined with the capital gains exclusion, the total tax savings for the entire period of ownership exceeds \$52,000.

For a couple with an income of \$60,000 and an initial mortgage of \$180,000, the five years tax savings total more than \$6,000 and the total savings over a twelve year period are estimated to be more than \$33,000.

Combined with the current \$8,000 first-time home buyer tax credit (www.federalhousingtaxcredit.com), available for qualified purchases on or after Jan. 1, 2009, and before Dec. 1, 2009, the tax savings from homeownership make buying a home today a rewarding financial decision.