

HOME OWNERSHIP AND TAXES



**Office of the Staff Judge
Advocate
Eielson AFB, Alaska**

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THE BIGGEST DEDUCTION

The one deduction that knocks most families out from the standard deduction and into itemized deduction is the mortgage interest deduction. While this is the biggest deduction available to homeowners, there are other tax benefits also available to home owners. These fall into two general categories: deductions and adjustments to basis.

DEDUCTIONS

The IRS allows a large deduction for interest paid on a mortgage. Your bank, credit union, or mortgage company should provide you with the amount of interest paid over the course of the year.

You may also take a deduction for the interest on a home equity loan (second mortgage). The money from the loan need not actually be spent to improve the home, but the loan must be secured by the property.

Real estate taxes are also deductible for the year in which they are incurred. Most lenders require prepayment of several months of real estate taxes. These prepaid taxes are NOT deductible in the year you pay them, but are deductible in the year in which they are due.

The IRS will, in some cases, also allow a deduction for losses due to natural disasters and theft. Special rules apply for these deductions. Please consult the legal office if you have questions about casualty or theft losses.

ADJUSTMENTS TO BASIS

Although the IRS will not allow a deduction for all home ownership expenses in the year they

are incurred, most can be recovered through adjustments to the basis of your house. For instance, all improvements will add to the basis of your home and may reduce your tax liability when you sell your house. Similarly, if you are required to pay a special property assessment for a public improvement (for instance, the sewer project in Eagle River), that expense is also added to the basis of your home. The actual cost of these expenses, plus the debt expense, can be added to the basis of your home.

NONDEDUCTIBLE EXPENSES THAT DON'T ADD TO THE BASIS

Unfortunately, not every expense is deductible or adds to the basis of your home. Repairs have no effect on the basis and are not deductible. Similarly, most monthly bills, including utilities, homeowner's association dues, insurance, and garbage collection are not deductible and have no effect on basis. Some expenses related to the acquisition of your home are also not recognized. These include loan assumption fees, credit reports, and appraisals.

SELLING YOUR HOME

One of the biggest changes to the tax code in recent years is the elimination of capital gains taxes for most home sales. There are specific residency requirements in order to qualify for this exemption. Special rules apply for joint filers who live apart and for properties that are used as rentals. If you sold a home during the tax year, please consult the legal office to get the most up-to-date law on this exemption.

If you lose money on the sale, that loss is not tax deductible. Many people choose to convert their homes to rental properties instead of taking a loss. Under that circumstance, you may be able

to take a loss deduction. Consult an accountant or attorney to be sure.

CONCLUSION

Owning a home can result in significant tax savings. To ensure you get the full refund you are entitled to, you will need to keep good records and consult your unit tax advisor early in the tax season. The Legal Office is here to help you! Please give us a call at 377-4114.

This pamphlet is for basic information about home ownership and taxes. It is not intended to take the place of legal advice from a Judge Advocate. There may be important exceptions in some states to the information presented here. Please contact the 354th Fighter Wing Legal Office for questions and further information.

