

# HOME OWNERSHIP AND TAXES



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

**354 FW/JA**  
Tax Law  
Pamphlet Series

As of 31 July 2017

## DEDUCTIONS

To deduct expenses of owning a home, you must file a Form 1040, *US Individual Income Tax Return*, and itemize your deductions on Schedule A (Form 1040). If you itemize, you cannot take the standard deduction.

Generally, your real estate taxes, home mortgage interest, and mortgage insurance premiums are included in your house payment.

If you took out a mortgage (loan) to finance the purchase of your home, you probably have to make monthly house payments. Your house payment may include several costs of owning a home. The you can deduct the following costs:

- Real estate taxes actually paid to the taxing authority. 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.
- Interest that qualifies as home mortgage interest. Your bank, credit union, or mortgage company should provide you with the amount of interest paid over the course of the year.
- Mortgage insurance premiums.

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.

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

Basis is your starting point for figuring a gain or loss if you later sell your home, or for figuring depreciation if you later use part of your home for business purposes or for rent.

While you own your home, various events may take place that can change the original basis of your home. These events can increase or decrease your original basis. These events are called adjustments to basis.

An improvement materially adds to the value of your home, considerably prolongs its useful life, or adapts it to new uses. The costs of any improvements must be added to the basis of your home. You cannot deduct these costs. Improvements include putting a recreation room in your unfinished basement, adding another bathroom or bedroom, putting up a fence, putting in new plumbing or wiring, installing a new roof, and paving your driveway. . 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.

## 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 (other than mortgage insurance premiums), 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, earnest money, 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.**

354 FW/JA

Tel: (907) 377-4114 / DSN 377-4114

