Tax Impacts of a Home Purchase

The purchase of a home can have a significant impact on your taxes. Because many expenses included in homeownership are deductible, it may mean that itemizing on your return will allow for a greater deduction than your standard deduction.

Annually, each taxpayer is allowed to take a standard deduction. If your itemized deductions amount to a greater value, you would likely want itemize on your return to use the greater deduction.

The 2014 standard deductions are as follows:

Married (Jointly):	**$12,400**	**Single/QW:**	**$6,200**
Married (Separately):	**$6,200**	**Head of Household:**	**$6,200**

The following homeownership costs are deductible:

- Home mortgage interest paid
- Private mortgage insurance (PMI) (through 2015)
- Loan Origination Fees (Points) [usually found on the closing statement (HUD1)]
- Property tax

These costs are generally enough to meet or exceed a taxpayer's standard deduction and allow the taxpayer the opportunity to deduct additional expenses. If you recently purchased a home or plan to purchase one in the near future, it is a good idea to keep receipts/records for the following:

- DMV auto license fee
- Gifts to charity
  - Money
  - Property (e.g. noncash donations to Goodwill)
  - Volunteer expenses and miles driven
- Medical & dental expenses (must meet or exceed 10% of gross income)
  - Non-reimbursed amounts paid (e.g. copays, prescriptions, insurance premiums, parking, supplies)
  - Distances traveled
- Job expenses (non-reimbursed): travel, miles driven, union dues, education, uniforms, tools
- Investment expenses
- Legal fees
- Safety deposit box rental

Remember to share these receipts/notes with your tax preparer when it is time to complete your annual tax return.

Example:

Mike & Sarah purchased their first home in January for 400,000 on a 30 year loan. They paid $4,000 in "points" to obtain the loan at a 4% interest rate. They have two cars and paid $414 to the DMV in license fees. Because Mike and Sarah are filing together as Married Filing Jointly, their standard deduction is $12,400.

Mike and Sarah have the following qualifying itemized deductions:

Mortgage Interest Paid:	**$15,872**
Property Taxes:	**$6,000**
***Mortgage Interest Points:**	**$4,000**
DMV License Fees:	**$414**
Total Itemized Deductions:	**$26,286**

***Only deductible in the year of purchase**

Because of their new expenses, itemizing will allow them to deduct $26,286; that is over $13,000 more than if they had taken the standard deduction.

Mike & Sarah have a combined income of $100,000. If they are in the 15% Federal tax bracket and the 6% CA state tax bracket, and they itemize this year, they will have a Federal tax <u>savings of $3,038</u> and a CA State tax <u>savings of $1,328</u>.