
INCOME TAX BENEFITS OF HOMEOWNERSHIP

Homeownership provides the most substantial income tax benefits available to the average person. This article summarizes the most common tax benefits of homeownership.

- 1. Deduction for Real Estate Taxes.** Property taxes on a first and second home are deductible.
- 2. Deduction for Interest.** Interest paid on loans used to buy a first or second home and on home equity loans up to \$100,000 (subject to some limitations) is deductible.
- 3. Exclusion of Gain on Sale of Residence.** The gain realized on the sale of your house is excluded from income (*i.e.* income tax-free!). The limit on the exclusion is \$500,000 for married taxpayers filing a joint return or \$250,000 for taxpayers not filing a joint return. The exclusion can be claimed every 2 years and you do not have to buy a replacement house to qualify for the exclusion. This exclusion replaces the previous “rollover” provisions and the \$125,000 one-time exclusion for taxpayers 55 years of age and older. To qualify for the exclusion, you must meet the three following tests:

- You must have *owned* the house for periods aggregating at least 2 years of the 5-year period ending on the date of sale;
- You must have *used* the house as your principal residence for periods aggregating at least 2 years of the 5-year period ending on the date of sale; and
- You must not have claimed the exclusion for any sale during the preceding 2-year period.

Special rules apply to losses on sales of residences, condemnations, expenses of vacation-rental properties, temporary rentals, members of the armed forces while on active duty, divorced couples, multiple residences, homes partly used for business, and deaths of spouses. Consult your tax advisor for further information and specific advice.

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