

# BoeKnows Real Estate

## Your Questions from Real Estate Buyers, Seller, & Agents

By Patti Boe

### WHAT IS TAX DEDUCTIBLE ON MY HOME?

**The Internal Revenue Service (IRS)** enables you to deduct the interest on your home or home equity loan in the first year the loan is made.

**Need more deductions?** Some homeowners are consolidating credit debt via a home equity loan. The reason is that the interest from a home equity loan is tax deductible, but the interest paid on credit card debt is not.

You can also deduct interest on any purchase or improvement for your home (or vacation home) from your tax return. The IRS allows you to deduct the interest paid on mortgage debt up to \$1 million, provided that your home is the collateral used to secure the loan.

**Property Taxes** even have a upside at tax time – you can deduct state and local taxes from your Federal return in the year that they were paid. If you bought a home in Santa Cruz in 2006 at the median price (at that time) of \$775,000, your property taxes at 1.25% would be \$9688 for the year, and are fully deductible. Property taxes are assigned based on the current value of your residence, so as the home value goes up and is currently assessed – so do your property taxes and your deduction.

If you bought your home in 2006 for \$850,000 and put 20% down payment (\$170,000), your loan balance was \$680,000 at say 6.5% interest per year (\$44,200); your total deduction including property taxes of \$9,563 is \$53,763. If you fall into a 25% tax bracket, your tax savings for that year would be \$13,441. Not bad at a time when every dollar counts.

If you're paying PMI Insurance (principal, mortgage, and interest insurance is a fund that collects taxes and insurance for you ahead of time); and your adjusted gross income is \$100,000 or less, a new tax deduction in 2007 allows you to deduct the full amount from your federal taxes. If your adjusted gross income is greater than \$100,000 but less than \$109,000 you qualify for a reduced deduction. Sorry, but your Homeowners' Association dues are not tax deductible.

Always keep records of any improvements on your home including receipts, service improvements, room additions, and upgrades because these become important when you sell your home to determine your cost basis plus improvement cost. At time of sale, you can also deduct the cost-of-sale which are things like commissions, termite and property inspections, and cost for getting the property in shape to sell.

To learn more about IRS guidelines regarding mortgage interest deductions, visit [www.irs.gov/pub/ins-pdf/p936.pdf](http://www.irs.gov/pub/ins-pdf/p936.pdf).

Remember that the law changes frequently. To find out exactly what is deductible, please email me at [patti@pattibo.com](mailto:patti@pattibo.com). I will refer you to one of several tax advisors or please talk to your own tax preparer. Don't wait; start those records now, you will be happy on April 15th!

**Call Patti Boe 800-738-3261, See PattiBoe.com for beachfront homes, commercial and income properties**

**\*Send Questions to Patti@PattiBoe.com**

**See Our Website: PattiBoe.com**

**American Dream Realty-Top Office  
Top Agent in Overall Production  
For The Last 15 Years!!**

