



Home Sweet Home: Shelter from Taxes

More Americans than ever own homes because it's the ultimate tax shelter.

You save taxes when you buy it.
You save taxes while you own it.
You save taxes when you sell it.

"The mortgage interest deduction and the deduction for property taxes are, to most Americans, sacred. These deductions have been around since time immemorial and the purpose was to encourage home ownership," said Leonard W. Williams, a certified public accountant in Sunnyvale, Calif.

Mortgage interest deduction

All but the very wealthy homeowners deduct all the mortgage interest they pay and consider that the primary tax benefit to home ownership.

IRS Publication 936 "Home Mortgage Interest Deduction" says, in general, joint tax filers can deduct all the interest on a maximum of \$1 million in mortgage debts secured by a first and second home, plus the interest paid on a maximum \$100,000 in home equity loans. The maximums are halved for married tax payers filing separately.

Watch out for those popular 125 percent equity-loans. Your equity tax deduction is limited to the lesser of the \$100,000 maximum and the home's fair market value, determined by a complicated formula found in Publication 936.

The mortgage interest deduction, along with other itemized deductions are included on "Schedule A, Itemized Deductions" to reduce your taxable income and ultimately your tax bill.

"If that total exceeds the standard deduction (\$3,550 for married couples filing separately, \$4,250 for singles, \$6,250 for heads of household and \$7,100 for married couples filing joint returns) then you get it deducted from your adjusted gross income," said Peter Vernaci, a certified public accountant from San Jose.

Mortgage tax credit

The Mortgage Credit Certificate (MCC) program allows some first time home buyers to benefit from a mortgage interest tax credit.

An MCC, which you first must obtain from your local housing department before you get a mortgage, gives a qualified first-time home buyer a federal income tax credit of up to 20 percent each year the buyer keeps the same loan and lives in the same house.

As explained in IRS Publication 530, "Tax Information for First-Time Homeowners," the credit is subtracted, dollar for dollar, from the income tax owed. For example, if you paid \$10,000 in interest, your tax credit would be \$2,000. The remaining 80 percent of the interest — \$8,000 is taken as a typical mortgage interest deduction.

You can see the tax credit's benefit immediately in your paycheck by adjusting your W-4 exemption status to reflect the credit. In some cases, lenders will qualify you for a loan based on the monthly mortgage payment minus the tax credit, enabling you to qualify for a bigger loan.