



Realty Viewpoint: Tax Benefits Make Homebuying Sound Decision

by Blanche Evans

Now that we're over home flipping, let's get back to the realities of the true profits of owning a home. With the exception of 2007, homes have increased in value nationwide one to two points above inflation levels, which is good, but it's not an incredible return.

But when you add in government incentives, you can just about live for free when you own your own home, counting getting your equity back when you sell.

Did you know that when you pay points to take out a mortgage, whether you or the seller paid, you can deduct it? Hello, \$1,000 or more!

Federally insured loans are another benefit. With home prices rising more quickly than incomes in many areas, qualifying for a conventional loan has been a challenge, but conforming loan limits have been temporarily raised, allowing people to buy higher cost homes using FHA, Fannie Mae and Freddie Mac guidelines. Home loan limits of \$417,000 have been raised to \$625,000 in many areas.

One of many benefits is being able to deduct property taxes from your federal income tax return. If you're a renter, you're paying someone else's property taxes and getting zero deductions. In effect, you're throwing two percent of your net income away. And that doesn't count the equity you're building for your landlord.

The government believes that homeownership means more stability for communities. So, whenever the economy goes in the tank and homeowners lose homes in greater numbers than usual, the government pulls out a tax benefit that makes it irresistible to own a home.

Usually when you sell an asset, you have to pay capital gains on it. When you make money, you pay taxes. But those concepts went out the window with the Tax Relief Act of 1997.

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Before then, homeowners had a one-time lifetime capital gains exclusion when they sold a homestead. After 1997, you could sell your homestead and keep the capital gains up to \$250,000 as a single or \$500,000 as a married couple.

In addition, your mortgage interest is tax deductible, up to \$1 million in mortgage debt. Thanks to the Mortgage Forgiveness Debt Relief Act of 2007, you can also deduct your mortgage insurance interest.

If your household makes an adjusted gross income of \$100,000 or less, you can deduct PMI on your tax return. Families with incomes between \$100,000 and \$109,000 are eligible for a reduced deduction, so if you bought a home without 20 percent down or excellent credit, you can now deduct your PMI until 2010.

And that's just a few of the federal benefits, folks. We haven't even begun to talk about hardship benefits, property inheritance benefits, or what your state or local community offers in homebuying incentives. Take Florida, where Realtors are reporting increased interest in homebuying due to the new portability provision in the state tax code which allows homeowners to transfer their Save Our Homes tax benefits from their old homestead purchased in 2007 to a new home.

The bottom line is that while homebuying is subsidized by the government, you'd be a fool not to take advantage. Just buy within your means, please.

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