Itemized Deductions
Homeowners

2016

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Itemized Deductions for Homeowners

The IRS defines a home as any house, condominium, cooperative, mobile home, boat, or similar property that has sleeping space, toilet facilities, and cooking facilities. Some homeowners qualify for these deductions.

Real Estate Taxes

You can deduct real estate taxes assessed on all the real estate you own. You are not limited to the tax on just one or two homes.

- Only the amount actually paid is deductible. Don't confuse this amount with deposits made to your mortgage escrow account.
- Charges for trash collection, sewer, etc., are sometimes added to real estate tax bills. These amounts are not deductible as real estate taxes.
- Special assessments are sometimes added to real estate tax bills. Assessments are not necessarily deductible as real estate taxes.

Assessment	Tax Treatment	Example
Improvement Assessment	• Tend to increase property value. • Not deductible. Add to basis.	Assessment to build new sidewalk.
Maintenance Assessment	• Maintain existing public facilities already in use. • Deduct as real estate taxes.	Assessment to repair existing sidewalk.
Interest Charges Added to Assessment	• Deduct as real estate taxes regardless of assessment purpose.	Interest charged on unpaid portion of assessment.

Mortgage Interest

If you borrow money to buy, build, or substantially improve your main or second home, the mortgage interest may be claimed as an itemized deduction on Schedule A.

Form 1098

Your lender will generally give you Form 1098, *Mortgage Interest Statement,* to tell you how much interest you have paid.

- An explanation must be attached to your tax return if the amount shown on Form 1098 is different from the deducted amount or if more than one person paid deductible mortgage interest (other than a spouse filing jointly).
- If you did not receive Form 1098, you must provide the name, identifying number, and address of the interest recipient.

Home Mortgage

A home mortgage is any loan secured by your main or second home, including first and second mortgages, home equity loans, and refinanced loans. The loan must be legally recorded, with the home as collateral for the debt. You must be legally liable to make the payments. For example, if you borrow money from your parents to make a down payment on your home, you cannot deduct the interest you pay them unless the loan is legally recorded with the home as collateral.

Limits

You may generally deduct the mortgage interest on your main home and a second home, up to the limits described below.

- A loan secured by a third home is a personal loan and the interest is not deductible. Interest on a third home used exclusively for business might be deductible as a business expense.
- Your mortgage interest deduction is limited, based on the type of debt you have. ***Note:*** Slightly different rules apply to mortgages taken out before October 14, 1987.

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Debt Type and Limit	Definition
• Acquisition debt: $1,000,000 combined debt on main and second home ($500,000 MFS).	Used to buy, build, or substantially improve a main or second home.
• Home equity debt: $100,000 combined debt on main and second home ($50,000 MFS).	Debt secured by a main or second home that is not acquisition debt.

Refinanced Loans

Debt that is refinanced generally retains its character as acquisition or home equity debt, up to the old loan balance.

- Debt used to substantially improve your home is acquisition debt, even if it is refinanced home equity debt.
- Refinanced acquisition debt that exceeds your old debt may qualify as home equity debt.

Points

Terms such as points, loan discount, loan origination fees, etc., refer to certain charges you might pay in order to obtain a mortgage. If you pay points to borrow money, the points are deductible as prepaid interest.

- Points are deductible ratably over the life of your loan. Points you pay at the time of your home purchase are deductible in full.
- Points you pay to the lender in exchange for a lower interest rate are generally shown on your closing statement. Each point charged to obtain a loan is 1% of the loan amount. For example, 2.5 points charged on a $100,000 loan equals $2,500 ($100,000 × 2.5%).
- Fees your lender charges for specific loan services are not deductible. Examples include appraisal, notary, and document fees.

Mortgage Insurance Premiums

Premiums paid for acquisition indebtedness for insurance contracts issued after December 31, 2006, on a first or second home are treated as deductible mortgage interest. The deduction begins to phase out when AGI exceeds $100,000 ($50,000 MFS). Qualified mortgage insurance providers include the Department of Veterans Affairs, the Federal Housing Administration, or the Rural Housing Service, and private mortgage insurance.

The deduction expires for premiums paid or accrued after December 31, 2016.

Medical Expense Deductions

You may need to make home improvements in order to provide medical care for yourself, your spouse, or your dependent. ***Examples:*** (1) Lifts or elevators, (2) therapy pool for help with a specific medical condition, (3) bathroom or countertop modifications to accommodate a person who is disabled, (4) ramps, handrails, support or grab bars, (5) modifications to halls and doorways.

An expense may generate a medical deduction to the extent the expense does not result in an increase to the home's value. Not every expense results in such an increase.

Operation and Upkeep

Amounts you pay to operate and maintain a medically-related home improvement qualify as medical expenses, if the main reason is for medical care. This is true even if only part or none of the asset cost qualified for a deduction.

Other Itemized Deductions

Casualty and Theft Losses

If your home is damaged or destroyed due to an identifiable event that is sudden, unexpected, and unusual, you may have a casualty loss. Losses are calculated on Form 4684, *Casualties and Thefts,* and carried to Schedule A, *Itemized Deductions.*

Business Use of the Home

If you use a home office as an employee, you may be able to claim a miscellaneous itemized deduction for the business use of your home.

- You must use your home office for the convenience of your employer.
- You may not rent your home office to your employer.

Contact Us

There are many events that occur during the year that can affect your tax situation. Preparation of your tax return involves summarizing transactions and events that occurred during the prior year. In most situations, treatment is firmly established at the time the transaction occurs. However, negative tax effects can be avoided by proper planning. Please contact us in advance if you have questions about the tax effects of a transaction or event, including the following:

- Pension or IRA distributions.
- Significant change in income or deductions.
- Job change.
- Marriage.
- Attainment of age 59½ or 70½.
- Sale or purchase of a business.
- Sale or purchase of a residence or other real estate.
- Retirement.
- Notice from IRS or other revenue department.
- Divorce or separation.
- Self-employment.
- Charitable contributions of property in excess of $5,000.