

# THE REAL ESTATE PAGE

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## Want To Owe Less Taxes? Purchase Real Estate!

**M**ost consumers understand that owning a home is a great tax shelter. But most consumers do not understand how great these benefits can be. This report will outline some of the major tax benefits of owning real estate. Indeed those who don't take advantage of these benefits are missing out on the great government give-away!

*The deduction of mortgage interest and property taxes.* A homeowner can deduct the interest on their primary residence and second home up to a million dollars in total debt. You can deduct property taxes on homes you own as well. You can also deduct up to \$100,000 in home equity debt, regardless of your use of the money. In the vast majority of the states the homeowner will receive a deduction on their state income taxes as well.

What does this mean to a typical homeowner? Simply put, the cost of a mortgage is much less than the cost of the monthly payment. For example, if the homeowner is in a 33.0% tax bracket and they are paying \$3,300 monthly on their mortgage and \$3,000 of this payment is comprised of interest and taxes, the payment after taxes is actually \$2,300. Also, do not forget that the principal portion of the payment is a forced savings account

that builds up equity as well. Therefore, more than 90.0% of the payment can be working to help

### *How to Pay Less Taxes...*

- ◆ *Deduct mortgage interest and property taxes*
- ◆ *Exclude your gain on sale*
- ◆ *Write off home offices*
- ◆ *Write off rental losses*

your financial situation. The \$2,300 payment "after taxes" is actually the rental equivalent. For this person, a payment of \$2,300 in rent is the same as a \$3,300 mortgage.

*The Sale of your home may be tax free.* If the home has been your primary residence for the past two out of five years, you can exclude the gain you receive after selling your home up to \$500,000 (\$250,000 for singles). Therefore, you get to keep the equity you built-up through appreciation. And you can use this exclusion again and again. Try doing that after you make money in the stock market!

*The home office.* If you use an office in the home, you can deduct the value of the home through depreciation, as well as other expenses such as insurance, in the same percentage as the square footage of the office. For example, if the office is 15.0% of the total home, you can depreciate 15.0% of the value of

the home, excluding the value of the lot. When you lower the value of the home through depreciation you will have to recapture that deduction when the home is sold. However, the annual deduction will be from individual tax rates while the gain on the sale of the home would be on the tax rate of capital gains, which is typically lower.

*Owning rental properties.* If you convert your present home to a rental or purchase a rental property, you can deduct losses on the rental as long as your income doesn't exceed \$100,000 annually. The deduction phases out over \$100,000 and disappears if your income is over \$150,000. Even if your cash flow is positive, there may be a loss because you can depreciate the value of the property. The maximum loss that can be deducted is \$25,000 annually.

We challenge you to find comparable tax benefits with any other investment. A house is a very important shelter but can be an even more significant tax shelter. Those who don't take advantage of this are giving back the greatest gift our government ever gives us... ▢



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