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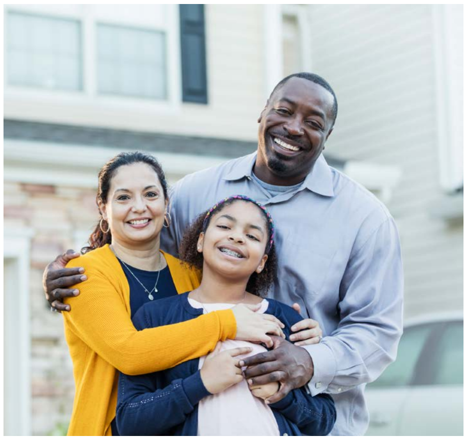
Homeowner Benefits: Eight Ways to Slash Your Tax Bill in 2021



The American dream of homeownership can be financially challenging. There are many provisions within the federal tax code meant to help homeowners.

The tax advantages of homeownership kick in at various times and can save you serious money. Here are ten ways you can leverage your home to reduce your tax bill in 2021.

1 **Mortgage Interest Deduction.** This is your best homeowner tax break. As long as you itemize on your IRS Form 1040, Schedule A, you can deduct the interest expense on mortgage loans of up to $750,000 ($375,000 for married couples filing separately). The limits are $1 million and $500,000 for homes bought before December 16, 2017, when Congress passed the Tax Cuts and Jobs Act of 2017 (TCJA). This provision applies to home purchases, as well as to improvements that add substantial value to your primary residence or a single second home.

2 **Property Tax Deduction.** State and local property taxes can be a heavy burden for many homeowners. But the good news is you can deduct them on your federal income tax return. As long as you itemize rather than take the standard deduction, you can deduct up to $10,000 in property taxes ($5,000 if married filing separately). And you're not limited to property taxes alone. Also, you can deduct state and local income and sales taxes, as long as you stay below the $10,000 limit.

3 **Mortgage Points Deduction.** Did you buy mortgage points when you took out your home loan? If so, this cost may be deductible. Points are fees homebuyers pay a mortgage lender to reduce their loan's interest rate. Each point costs 1% of the mortgage amount and lowers the interest rate by 0.25% for the life of the loan. Points can save you a lot of money, and they're tax deductible for up to $750,000 of mortgage debt. Plus, they're fully deductible in the year you purchase them, as long as your loan was for buying, building or substantially improving your primary residence.

4 **Mortgage Insurance Premium Deduction.** If you took out a mortgage after 2006 and made less than a 20% down payment, your lender likely required you to buy private mortgage insurance (PMI). Your PMI cost is deductible on your federal tax return, subject to income requirements. Your deduction will begin to phase out when your adjusted gross income (AGI) hits $100,000 and disappears completely by $109,000. If you're married but filing separately, the corresponding figures are $50,000 and $54,500. Warning: due to TCJA tax reform, this deduction is scheduled to expire after the 2020 tax year.

5 **Capital Gains Home Sale Exclusion.** If you plan to sell your home, the IRS has a special deal for you. Up to $500,000 of your profit from the sale (i.e., your capital gain) isn't taxable ($250,000 for single filers). To receive this benefit, you must have owned and lived in your home for at least two of the prior five years. You also must not have used this deduction in the prior two years.

6 **Energy-Saving Tax Credits. I**f you install green-energy equipment in your home, the federal government will credit your taxes by 30 % of your cost (for systems that produce electricity, heat water or control your home's temperature). The credit applies to solar, wind, geothermal or fuel cell power. Installing energy-efficient insulation, roofing, heating/air-conditioning and doors can save you another $500 in federal taxes.

7 **Medical Expense Deductions.** If you have a medical condition that requires you to modify your home or add special equipment to it, your expenses are deductible. Common upgrades include adding ramps and handrails, installing lifts or elevators or lowering cabinets, among many others. Changes to make your home easier to live in as you age aren't deductible if they're not medically necessary. But there's one important caveat: you must itemize to take this deduction and you can take it only if the expenses exceed 7.5% of your AGI (10% after 2020).

8 **Home Office Deduction.** Entrepreneurs can deduct the expenses they incur for maintaining a home-based office. But this technique has minefields, so check with an tax professional before using it. Broadly speaking, if you use part of your home regularly and exclusively to operate a business, you can write off your expenses on IRS Form 1040, Schedule C. There's a hard way to do this and an easy way. The hard: track all of your home expenses (utilities, insurance and repairs, etc.). Then multiply your total expenses by the percentage of your home used for business. The easy way is to multiply the amount of space you use for your business (up to 300 square feet) by $5. The total is your home-office deduction.

To take full advantage of federal tax benefits for homeowners, download IRS Publication 530, Tax Information for Homeowners. And to learn about how to insure your home after you buy it, [visit the Gallagher Personal Lines website.]