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At Ingram Financial Group, we're always looking for innovative ways to keep you in touch with what's new in finance, the community and with our company.

Tax Advantages of Homeownership

Although tax considerations probably aren't the motivating force behind most home purchases, the tax advantages associated with homeownership are significant enough that they may factor into the decision process. Here's a quick review of federal tax benefits available.

The Mortgage Interest Deduction

If you itemize deductions on Schedule A of Form 1040, you're generally able to deduct the interest you pay on debt resulting from a loan used to buy, build, or improve your principal residence, provided that the loan is secured by your home (the ability to deduct mortgage interest also generally applies to second homes, though special rules apply if you rent the home out for part of the year). Interest you pay on up to $1 million in mortgage debt ($500,000 if you're married and file a separate federal income tax return) can qualify for the deduction (different rules may apply if you incurred the debt prior to October 14, 1987).

Interest on qualifying home equity debt (basically, debt on a loan secured by equity in your main or second home that is not used to buy, build, or improve your home) of up to $100,000 ($50,000 for married individuals filing separately) is generally deductible regardless of how the loan proceeds are used. Note, however, that if you're subject to the alternative minimum tax (AMT), the AMT calculation doesn't allow a deduction for interest on debt that's not used to buy, build, or improve your home.

Qualified mortgage insurance premium payments made prior to 2012 can be deducted in the same manner as qualified mortgage interest, provided the mortgage insurance contract is issued after 2006. The deduction is, however, phased out for those with adjusted gross incomes exceeding $100,000 ($50,000 for married couples filing separate federal income tax returns).

Deduction for Real Estate Property Taxes

If you itemize deductions, you can also generally deduct the real estate taxes that you pay on your property in the year that you pay them to the taxing authority. If you pay your real estate taxes through an escrow account, you can only deduct the real estate taxes actually paid by your lender from the escrow account during the year. For purposes of calculating the AMT, however, no deduction for state and local taxes, including any real estate tax, is allowed.

Energy Tax Credit

Though not as generous as it has been the last two years, a credit is available to individuals who make energy-efficient improvements to their homes. You may be entitled to a 10% credit for the purchase of qualified energy-efficient improvements, including a roof, windows, skylights, exterior doors, and insulation materials. Specific credit amounts may also be available for the purchase of specified energy-efficient property: $50 for an advanced main air circulating fan; $150 for a qualified furnace or hot water boiler; and $300 for other items, including qualified electric heat pump water heaters and central air conditioning units.

There's a lifetime credit cap of $500 ($200 for windows), however. So, if you've claimed the credit in the past--in one or more tax years after 2005--you're only entitled to the difference between the current cap and the total amount that you've claimed in the past. That includes any credit that you claimed in 2009 and 2010, when the aggregate limit on the credit was $1,500.

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Mortgage Interest Deduction Threatened?

Recent discussions relating to reducing the budget deficit have cast a spotlight on itemized deductions, including the mortgage interest deduction. Could the mortgage interest deduction ultimately be eliminated? That seems unlikely, but elimination or reduction of the deduction has remained part of the ongoing debate, and was included among the recommendations contained in the National Commission on Fiscal Responsibility and Reform's December 2010 report.

Capital Gain Exclusion

If you sell your principal residence at a gain, you may be able to exclude some or all of the gain from federal income tax. Generally speaking, capital gain (or loss) on the sale of your principal residence equals the sale price of the home less your adjusted basis in the property. Your adjusted basis is the cost of the property (i.e., what you paid for it), plus amounts paid for capital improvements, less any depreciation and casualty losses claimed for tax purposes.

If you meet all requirements, you can exclude from federal income tax up to $250,000 ($500,000 if you're married and file a joint federal income tax return) of any capital gain that results from the sale of your principal residence. In general, this exclusion can be used only once every two years. To qualify for the exclusion, you must have owned and used the home as your principal residence for a total of two out of the five years before the sale. If you fail the two-out-of-five-year test, you might still be able to exclude part of your gain if your home sale is due to a change in place of employment, health reasons, or certain other unforeseen circumstances.

It's important to note that special rules apply in a number of circumstances, including situations in which you maintained a home office for tax purposes or otherwise used your home for business purposes. Special rules may also apply if you are a member of the uniformed services.

According to the U.S. Census Bureau, the estimated homeownership rate in the United States at the end of 2010 was 66.5% (Source: U.S. Census Bureau, Housing and Household Economic Statistics Division).

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* The Standard & Poor's 500 (S&P500) is an unmanaged group of securities considered to be representative of the stock market in general.
* The DJ Global ex US is an unmanaged group of non-U.S. securities designed to reflect the performance of the global equity securities that have readily available prices.
* The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market.
* Gold represents the London afternoon gold price fix as reported by the London Bullion Market Association.
* The DJ Commodity Index is designed to be a highly liquid and diversified benchmark for the commodity futures market. The Index is composed of futures contracts on 19 physical commodities and was launched on July 14, 1998.
* The DJ Equity All REIT TR Index measures the total return performance of the equity subcategory of the Real Estate Investment Trust (REIT) industry as calculated by Dow Jones.
* Yahoo! Finance is the source for any reference to the performance of an index between two specific periods.
* Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance.
* Past performance does not guarantee future results.
* You cannot invest directly in an index.
* Consult your financial professional before making any investment decision.

Ingram Financial's team of experts can help you grow, protect and disperse your assets - all in one place and at exceptionally reduced costs. Please feel welcome to call or stop by your local branch today. As always, thank you for your business.

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