

## 10 Commonly Missed Tax Deductions for Homeowners

If you own a house, condo or cooperative apartment, you might be among the millions of homeowners who unintentionally forget to claim all the tax deductions to which you are entitled.

Uncle Sam encourages homeownership by awarding special tax breaks not available to non-owners. That's why 68 percent of U.S. households involve homeowners. This result isn't an accident. It's carefully planned government tax policy.

But it's up to each homeowner to use these tax breaks to maximum advantage. Not every deduction applies to each homeowner. However, it's important to know about them and claim the appropriate deductions that apply. Using just one or two forgotten tax breaks can save hundreds, sometimes thousands, of tax dollars.

**1. If you bought a home, deduct your principal residence mortgage acquisition loan fee.** If you purchased your principal residence in 2003, and if you paid a loan fee (usually called "points") to obtain your home mortgage, that loan fee qualifies as an itemized interest deduction in the year of home purchase.

Each point equals one percent of the amount borrowed. For example, if you obtained a \$100,000 home acquisition mortgage, and paid a two-point loan fee to lower your mortgage's interest rate, that \$2,000 loan fee qualifies as an itemized interest deduction in the year of home purchase. The general rule is that for each one-point loan fee paid, the lender should reduce the loan's interest rate by 1/8 percent. That's why smart home buyers pay a one- or two-point loan fee to (a) reduce their loan's interest rate and (b) deduct the loan fee in the tax year of their principal residence purchase.

Be sure to double-check the IRS Form 1098 sent in January by your home loan lender. If it did not include the loan fee points you paid in 2003, be sure to itemize them anyway on Schedule A of your income tax return. Your proof of payment will usually be on the loan closing papers received at the time of home purchase.

**2. Deduct home mortgage refinance fees over the life of the mortgage.** 2003 was another record volume year for home mortgage refinancings. If you refinanced your home mortgage and paid loan fee points to obtain the loan, those points are not deductible in the year of payment. Instead, you can deduct them over the life of the mortgage.

To illustrate, suppose you paid \$1,000 loan fee points to refinance your home loan with a new 30-year mortgage. The tax result is for each of the next 30 years you will have an itemized \$33.33 deduction.

For most homeowners, rather than paying loan fee points when refinancing, they are usually better off obtaining a no-fee mortgage and paying a slightly higher tax-deductible mortgage interest rate.

**3. If you changed job location and residence location in 2003, your moving costs may be tax deductible.** Whether you rent or own your home, if you changed both your job location and your residence in 2003, your moving costs might be tax deductible. If you made a major cross-country move, the result can be savings of hundreds or even thousands of income tax dollars.

To qualify, the distance to your new job site must be at least 50 miles further from your old home than was your old job location. The distance to your new job location from your new residence is irrelevant.

For example, suppose your old home was five miles from your old job site. That means your new job location must be at least 55 miles (five plus 50) from your old home for you to qualify in this example to deduct your moving expenses.

If you passed the moving expense distance test, the second qualification test requires you to be employed at least 39 weeks during the next 52 weeks in the vicinity of your new job location.

But you need not work for the same employer. Either spouse can qualify. However, if you are self-employed, you must work at least 78 weeks during the next 104 weeks in the vicinity of your new job site.

**4. Deduct any home mortgage prepayment penalty paid.** Whether you sold your home or refinanced its mortgage, if you paid a mortgage prepayment penalty, don't forget to claim it as an itemized Schedule A income tax interest deduction. Be sure to double-check the IRS Form 1098 received from your lender because it might not include the prepayment penalty paid.

**5. Deduct undeducted loan fees from a prior home loan refinance.** If you refinanced your home loan in 2003, perhaps for the second or third time to take advantage of record-low interest rates, any undeducted loan fees from your prior home loan refinance can be deducted in full in the year of the refinance.

To illustrate, suppose you had \$900 of undeducted loan fee points from when you refinanced in 2002. Because you refinanced in 2003 to pay off that old mortgage, the full \$900 in undeducted loan fees became deductible on your 2003 income tax return.

**6. Deduct prorated mortgage interest share in the year of home sale or purchase.** If you bought a home in 2003 and took over its existing mortgage payments from the prior owner (called assuming or buying "subject to" the mortgage), in the month of purchase the mortgage interest was prorated between the buyer and seller.

This proration is usually calculated on the closing settlement statement. Even if the other party actually paid the mortgage payment for the month, you are entitled to deduct your share of the prorated mortgage interest as an itemized deduction on your income tax returns.

**7. Deduct your share of prorated property taxes if you bought or sold your home.** Whether you bought or sold your home in 2003, you are entitled to deduct your share of the prorated property taxes, even if the other party actually paid the local tax collector's bill.

Your share of the prorated tax bill should be shown on your closing settlement statement. Although most homeowners remember to deduct their property taxes paid, it's easy to forget this prorated deduction because often your only evidence of payment is on the closing statement.

**8. Deduct prepaid mortgage interest and property taxes.** If you are like I am, looking for every possible income tax deduction to minimize income taxes, prepaying mortgage interest and property taxes can be a great tax savings. The only drawback, however, is you must have made the prepayments by Dec. 31, 2003.

Millions of homeowners use this tax break to save on their income taxes. It's a good deduction to remember for use in December 2004. Double-check your mortgage lender's IRS Form 1098 to be sure it included your prepaid mortgage interest for the January 2004 payment, which you sent to the lender in December 2003.

If you prepaid in late 2003 your property taxes due in 2004, you should have either a canceled check or other evidence you prepaid the property taxes in 2003. Not all property tax collectors allow early payments but if yours does, this can be a great tax saver.

**9. Deduct and double-check property taxes paid from your escrow impound account.** If your mortgage includes a monthly escrow or impound account payment for 1/12 of your annual property tax bill, double-check to be certain your mortgage lender remitted your property taxes to the tax collector on time in 2003.

Unfortunately, many mortgage lenders forget to pay these important tax bills on time. Just because you paid your escrow impound payment on time to the lender does not make the full amount tax deductible. Only the amount actually remitted to the property tax collector in 2003 qualifies as an itemized deduction for your primary or secondary home.

**10. Deduct ground rent payments if your home is on leased land.** Several million homeowners are not aware of this special tax break for an owned residence located on leased land. To qualify, your situation must meet the tax law's exact requirements. For example, if you rent a "pad" or "lot" in a mobile home park, your monthly rent paid to the park owner usually will not qualify for this deduction.

Internal Revenue Code 163(c) permits homeowners living on a leased parcel to deduct their ground rent payments if (a) the ground lease is for at least 15 years, including renewal periods, (b) the lease is freely assignable to the buyer of your home, (c) the land owner's interest is primarily a security interest (like a mortgage), and (d) you have a current or future option to buy the land beneath your residence.

If you do not have an option to buy the land, such as in a mobile home park, your land lease or ground rent payments do not qualify as tax deductible itemized interest.