The Ultimate HomeOwner Tax Deduction Guide

Unlock Your Income Tax Savings

11 Top Tax Deductions for Home Owners

Congratulations, you just purchased your piece of the American Dream. Now it's time to start thinking strategic about your tax breaks, if any. The most common question New Homeowners have is, what is the tax deduction for purchasing a home and unfortunately the answer is no. The only tax deductions on a home purchase you may qualify for is the prepaid mortgage interest (points). It does get better the longer you own. The IRS has extensive rules about the tax breaks available for homeowners.

Take a note of the top 11 Tax Breaks for Homeowners below:

1. Mortgage Interest

If you have a mortgage on your home, you can take advantage of the mortgage interest deduction. You can lower your taxable income through this itemized deduction of mortgage interest.

In the past, homeowners could deduct up to $1 million in mortgage interest. However, the Tax Cuts and Jobs Act has reduced this limit to $750,000 as a single filer or married couple filing jointly. If you are married but filing separately, the deduction limit is $375,000 for each party.

2. Home Equity Loan Interest

A home equity loan is essentially a second mortgage on your house. With a home equity loan, you can access the equity you've built in your home as collateral to borrow funds that you need for other purposes.

Like regular mortgage interest, you can deduct the interest you've paid on home equity loans and home equity lines of credit. However, you can only claim this deduction if you used the borrowed funds to pay for a home improvement. Prior to the Tax Cuts and Jobs Act of 2017, you could deduct the interest on these loans regardless of how you spent the funds.

3. Mortgage Discount Points

When you take out a mortgage, you may have the option to purchase discount points to lower your interest rate on the loan. If you have this option, one discount point will equate to 1% of the mortgage amount.

If the points are purchased to reduce the mortgage's interest rate, you can deduct the cost of the discount points. However, 'loan origination points' will not be tax deductible because these are fees that don't affect the interest rate of your loan.

4. Property Taxes

As a homeowner, you'll face property taxes at a state and local level. You can deduct up to $10,000 of property taxes as a married couple filing jointly – or $5,000 if you are single or married filing separately.

Depending on your location, the property tax deduction can be very valuable.

5. Energy Efficient Upgrades

Homeowners Can Save Up to $3,200 Annually on Taxes for Energy Efficient Upgrades. Through 2032, federal income tax credits are available to homeowners, that will allow up to $3,200 annually to lower the cost of energy efficient home upgrades by up to 30 percent.

6. Necessary Home Improvements

Necessary home improvements can qualify as tax deductions. Of course, the definition of "necessary" is somewhat limited. If you upgrade your fully functioning kitchen, those improvement costs may not qualify.

However, if you have to make permanent improvements to make your home more accessible for medical reasons, that should qualify. A few examples might include installing medical equipment, railings or widening doorways for an accessible home.

7. Mortgage Insurance

Private mortgage insurance, or PMI, is another expense that many homeowners must factor into their budget. PMI is there to protect your lender if you are unable to continue making payments on your mortgage. You can deduct your mortgage insurance payments on your itemized tax return.

8. Capital Gains Tax Exclusion

The capital gain is the difference between the value of the home when you bought it and when you sold it. For example, let's say you bought your home for $150,000. A few years later, you sell your home for $200,000. With that deal, you walk away with a capital gain of $50,000. Capital gains are the profits from selling after paying off your expenses, plus any outstanding mortgage debt.

If you used the home as your primary residence for 2 of the last 5 years, you could keep some profits without any tax obligation. This means a married couple filing jointly, you can keep up to $500,000 in capital gains. As a single filer or married couple filing separately, each party can keep up to $250,000 of capital gains without a tax obligation.

9. Home Office Deduction Expenses

If you operate a business in your residence, you may be able to deduct some of the expenses of maintaining that space. The IRS requires that you use your home office for regular and exclusive business use in order to qualify for a deduction. If you only use the office space when it is convenient, or just for working from home for your employer, that will not qualify.

Having a business in the home will allow you to benefit from Utility deduction, Homeowner association fees (HOA), Home and Fire Insurance. Under most circumstances, you cannot deduct your homeowner's insurance premiums from your taxes. However, if you have an office in the home, rent out your home, or have a home insurance claim that wasn't fully covered by insurance, you may be able to claim a standard or itemized deduction on your tax return.

10. Home Depreciation

Yes, if you use it in your business or income-producing activity. If you use property to produce income (investment use), the income must be taxable. You cannot depreciate property that you use solely for personal activities. The IRS allows you to deduct a specific amount (typically 3.636%) from your taxable income every full year you own and rent a property. Real estate depreciation is a method used to deduct market value loss and the costs of buying and improving a property over its useful life from your taxes.

11. Selling Costs

If directly tied to the sale of the home, and you lived in the home for at least two of the five years preceding the sale and the home must be a principal residence and not an investment property you can benefit.

You can deduct any costs associated with selling the home—including legal fees, escrow fees, advertising costs, home staging fees, home improvement repairs, property taxes, mortgage interest, and real estate agent commissions. You will subtract them from the sales price of your home, which in turn positively affects your capital gains tax (go back to #9).

For home improvements and repairs - If you renovated a few rooms to make your home more marketable (painting the house or repairing the roof or water heater), you can deduct those expenses as selling costs as long as they were made within 90 days of the closing.

For mortgage interest - new homeowners (and home sellers) can deduct the interest on up to only $750,000 of mortgage debt, though homeowners who got their mortgage before Dec. 15, 2017, can continue deducting up to the original amount up to $1 million.

Who benefits most? Those that itemize deductions and have a value over new standard deduction. This number changes each year. To learn more and see what you may qualify for, contact Herij Taxes at 833.944.6292.