

My Home Loan



Mortgage Insight: 2006 Year-End Home Owner Tax Savings

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Year-end tax savings await you! As the end of 2006 rapidly approaches, there is still time to plan your year-end tax savings. Just one or two savvy real estate transactions can result in saving thousands of tax dollars in this year and future years.

Of course, always consult your personal tax adviser to maximize tax savings. Here are the 10 major year-end real estate tax savings opportunities:

1. SELL YOUR PRINCIPAL RESIDENCE BEFORE NEW YEAR'S DAY.

The biggest tax break available to most taxpayers is to sell your principal residence. If you owned and occupied it at least 24 of the last 60 months before its sale, you can claim up to \$250,000 tax-free capital gains (up to \$500,000 for a qualified married couple filing a joint tax return).

Internal Revenue Code 121 provides this generous tax break. But it can only be used once every 24 months.

2. BUY A PRINCIPAL RESIDENCE BEFORE YEAR-END.

If you want to buy a house or condo for your principal residence, the current "buyer's market" in most cities is a great opportunity. Home sellers and their realty agents are anx-

ious to negotiate.

With fixed-rate home loans hovering around 6 percent, this is an ideal time to buy from a motivated home seller. When you pay a typical home acquisition loan fee of 1 percent or 2 percent of the mortgage amount, it becomes tax-deductible as itemized interest if your home purchase is recorded by Dec. 29, the last business day of 2006.

In addition, the mortgage interest you pay the lender in 2006 is also tax-deductible on your 2006 income tax returns.

3. REFINANCE YOUR HOME MORTGAGE; DEDUCT UNDEDUCTED LOAN FEES.

If you have a previously refinanced home loan for which you paid a loan fee -- and which you are amortizing over the life of that mortgage -- today can be a great time to refinance to (a) get rid of an adjustable-rate mortgage, and/or (b) take out tax-free cash from your home equity, perhaps for home renovation or other purposes.

In the year of paying off a mortgage with un-deducted loan fees, those fees become fully tax-deductible as itemized interest.

To avoid this problem in the future, when refinancing it is often smart to obtain a so-called "no-cost mortgage." Although the lender might charge a slightly higher interest rate, typically one-eighth percent higher, because loan fees paid on refinanced mortgages are not fully tax deductible immediately and must be amortized over the loan's life, borrowers usually

come out ahead with a no-cost mortgage.

4. OBTAIN A HOME EQUITY CREDIT LINE TO CREATE TAX-DEDUCTIBLE INTEREST.

If you have credit card debt, perhaps an auto loan or personal loans up to \$100,000 total on which you are paying nondeductible interest, obtaining a home equity credit line to pay off those debts can create tax-deductible interest secured by a home equity credit line.

Interest on a home equity loan up to \$100,000 is tax-deductible. They are easily available from local banks, credit unions and other lenders. However, if the purpose of your home equity loan is for use in your business, there no limit to the interest deductibility on your business tax returns.

5. PREPAY YOUR JANUARY 2007 MORTGAGE PAYMENT IN 2006.

An easy big tax-saver for homeowners is to prepay your January 2007 mortgage payment well before Dec. 29, 2006. If your mortgage lender receives the payment in time to include it on your IRS 1098 interest deduction statement, the result will be an increased itemized interest deduction for 2006.

6. PREPAY YOUR 2007 PROPERTY TAX IN 2006.

Many local property tax collectors notify homeowners in 2006 of their property tax payments, which will become due in 2007.

If your tax collector allows you to prepay your 2007 property tax in 2006, it qualifies as an itemized deduction on your 2006 income tax returns. A phone call to your local tax collector will let you know if he accepts early property tax payments.

7. DELAY A TAXABLE HOME SALE UNTIL 2007.

If you are fortunate to have a potentially taxable home sale exceeding \$250,000 capital gain (over \$500,000 for a qualified married couple filing a joint tax return), it will pay to delay the closing date until after Jan. 1, 2007.

The reason is the capital gain tax on your 2007 profitable sale won't be due until April 15, 2008. This same principle also applies to other types of property sales.

8. IF YOU MOVED IN 2006 DUE TO A JOB LOCATION CHANGE, DEDUCT YOUR MOVING COSTS.

A large tax deduction that many renters and homeowners forget is the moving-cost tax deduction. If you changed both your job site and your personal residence in 2006, you may be able to deduct your moving expenses.

To qualify, even if you take the standard tax deduction, you can deduct moving costs if the distance from your previous residence to your new job site increased by 50 miles or more. For example, suppose your old

job location was 10 miles from your old home. That means the distance from your old home to your new job location (even if you work for the same employer) must be at least 60 miles (10 plus 50 in this example).

Either spouse can qualify, providing you changed your residence in the same year of changing job location. Even if you became self-employed or changed employers, if you meet the distance test, your direct moving costs may be tax deductible if you meet the minimum employment time tests.

9. DEDUCT UNINSURED CASUALTY OR THEFT LOSS.

If you had a "sudden, unexpected, or unusual" casualty or theft loss that was not paid by insurance or other recovery, it may qualify for the casualty loss tax deduction. However, only personal casualty losses exceeding \$100 and over 10 percent of your 2006 adjusted gross income qualify.

For example, if you paid \$10,000 to repair your home after an uninsured 2006 flood loss, that loss is tax deductible to the extent it exceeds 10 percent of your 2006 adjusted gross income, plus \$100 per casualty event. With \$30,000 adjusted gross income for 2006, subtracting \$3,100 from your \$10,000 repair cost, \$6,900 of the loss becomes tax deductible in this example.

10. MAKE A TAX-DEFERRED EXCHANGE OF BUSINESS OR

INVESTMENT PROPERTY.

Many owners of business or investment properties hesitate to sell because they will then owe a large capital gains tax. Instead, they can make an Internal Revenue Code 1031 tax-deferred exchange for another "like kind" property of equal or greater cost and equity.

"Starker exchanges" allow the sale of a qualified investment or business property, if the sales proceeds held by a qualified intermediary or accommodator, followed by purchase of a qualifying replacement property without having "constructive receipt" of the sales proceeds. But the exchanger only has 45 days to designate the replacement property and up to 180 days to complete the acquisition.

Details on these, and other year-end tax savings are available from your tax adviser.

Claudio D. Varga is President of My Home Loan. The firm provides a wide variety of lending solutions for residential and commercial real estate. Claudio has been a licensed mortgage broker since 1998 and his clientele ranges from first time home buyers to professional multi-property real estate investors.

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