



Tax Benefits for Homeowners

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This article will discuss the tax benefits of homeownership and what consumers need to know about filing their 2024 taxes from a real estate perspective.

What are the biggest tax benefits available to homeowners in 2024, and how can they maximize them? Home owners and potential home owners need to be aware of three important tax benefits related to home ownership; 1) the mortgage interest deduction 2) the deductibility of property taxes, and 3) the ability to exclude all or part of the gain on the sale of a primary residence.

- **How does the mortgage interest deduction work, and who qualifies for it?**

Homeowners that are able to itemize their deductions (as opposed to taking the standard deduction) can deduct the mortgage interest paid on a loan related to their primary residence. The deduction is limited to interest paid on mortgage indebtedness of not more than \$750,000.

- **How do property tax deductions work?**

Homeowners that are able to itemize their deductions (as opposed to taking the standard deduction) may be able to deduct property taxes paid on their primary residence. Deductible amounts are typically subject an overall limit of \$10,000 for all state and local taxes paid.

- **How does the gains exclusion work?**

Generally, homeowners that have owned their primary residence for at least two years, can exclude the gain on sale of their primary residence from taxable income. The excluded gain is limited to \$250,000 for taxpayers filing single and \$500,000 for taxpayers filing married filing jointly.

What tax benefits exist for first-time home buyers?

Every first-time homebuyer is allowed to withdraw up to \$10,000 out of their traditional or Roth IRAs without being subjected to the 10% early withdrawal penalty. In this instance, a first-time homebuyer is defined as someone who has not owned a personal residence in two years.

- **Please also explain the first-time/second chance home buyer savings account program.**

In the state of Alabama, qualified individuals are eligible to contribute up to \$5,000 for single taxpayers and \$10,000 for married couples to a special savings account to be used for future down payments and closing costs as a first-time homeowner. Qualified individuals must be Alabama residents

who have not owned or purchased a home in the 10-year period prior to the current home purchase. The contributions to the account may be deductible and earnings are tax free. The individual may claim the deduction only if principal and earnings are used on a qualified withdrawal for home purchase. Any unused funds or nonqualified withdrawals will result in taxable income for that year.

How do tax benefits differ for homeowners who use part of their home as an office?

Homeowners may be able to deduct certain expenses related to home ownership when they use a portion of their home exclusively for conducting business. Homeowners may use the simplified method or the actual expenses method. Deductible items may include mortgage interest, taxes, maintenance and repairs, insurance, and utilities.

What tax deductions or credits are available for home improvements and energy-efficient upgrades?

The Energy Efficient Home Improvement Credit is a tax credit allowed for the following improvements:

- Qualified energy efficiency improvements – insulation and exterior windows and doors
- Qualified residential energy property expenditures – water heaters, heat pumps, HVAC units, furnaces, etc.
- Home energy audits

The credit is equal to up to 30% of the taxpayer's expense, with additional limitations in place. These limitations include, but are not limited to \$600 for exterior windows, \$500 for exterior doors and \$150 for home energy audits. The total annual credit allowed for the tax year cannot exceed \$3,200.

What common mistakes do homeowners make when filing taxes, and what best practices can help them avoid these issues?

Some common mistakes homeowners make when filing taxes include:

- Confusing escrow amounts for actual taxes paid. Make sure to use the actual county provided tax bill to record the correct amount of taxes paid rather than the escrow from monthly statements.
- Deducting points paid when refinancing. Points are fully deductible in the year the home is purchased, but points from a refinance must be deducted over the life of the new loan.
- Not recognizing limitations on the deductibility of mortgage interest. For most taxpayers, mortgage interest is fully deductible; however, the mortgage interest deduction is limited for mortgages in excess of \$375,000 for single taxpayers and \$750,000 for married couples.

What's the best piece of advice you'd give to homeowners to ensure they're taking full advantage of tax benefits?

Homeowner should discuss these items with their tax preparer to ensure they are aware of the home-ownership.

Anything related to tax benefits for homeowners as they file for 2024?

Make sure all applicable deductions for home interest and real estate taxes are claimed as deductions on the tax return. Also make sure any qualified energy efficient property expenditures are documented to receive the applicable tax credits. These two things will help homeowners reduce tax liability during the 2024 tax filing season.

Information courtesy of Carr, Riggs & Ingram

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