TAXES 2022

Buying, Selling And Owning A Home Can Save You Money At Tax Time

Every year holiday dates come and go on the calendar. There's also one big, looming date, however, that isn't a holiday—even though it's marked in red on almost every calendar: Tax Day, April 18 in 2023.

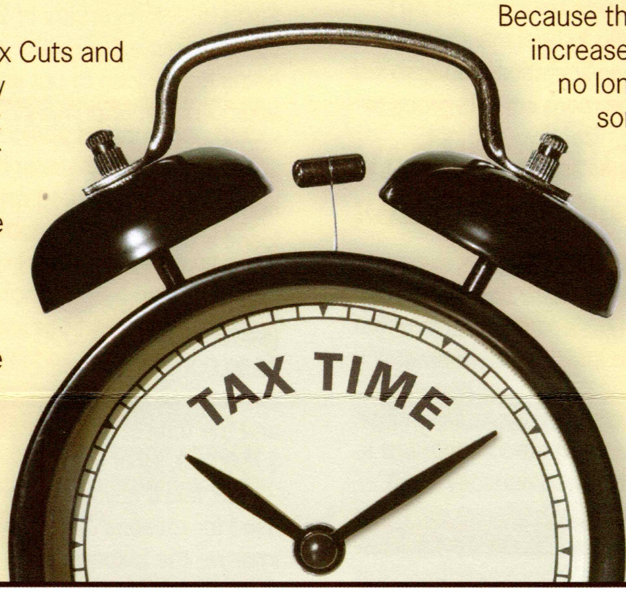
Each January, we provide useful tax info to help you prepare your tax return. This yearly tax focus has become a popular tradition with our clients because they appreciate the summaries of what has—or has not—changed in deductions and tax breaks related to home ownership.

Just a few years ago, the Tax Cuts and Jobs Act (TCJA) of 2017 greatly changed existing tax laws that affect homeowners. How your personal tax bill has been affected by the changes in the law depends on your income, where you live, how much you spent (or plan to spend) on a home and whether you decide to itemize on Form 1040's Schedule A or take one of the standard deduction amounts.

The Inflation Reduction Act of 2022 also has a beneficial financial impact on select energy saving improvements to your home for the 2022 tax year. Keep in mind that the majority of the provisions of that act in regards to energy saving elements do not go into effect until the 2023 tax year.

Keep in mind that the standard deduction has again increased slightly for 2022 and for individuals is $12,950 and for married couples filing jointly is $25,900. (Those numbers are higher for individuals older than 65, legally blind or heads of households.) Because these standard deductions have increased, itemizing deductions may no longer make financial sense for some taxpayers.

Here are some basic home-related tax facts you should be aware of in light of the changed tax laws. For clarification, forms and publications, visit the Internal Revenue Service at *www.IRS.gov*. Be sure to consult a tax professional for complete information applicable to your specific situation.

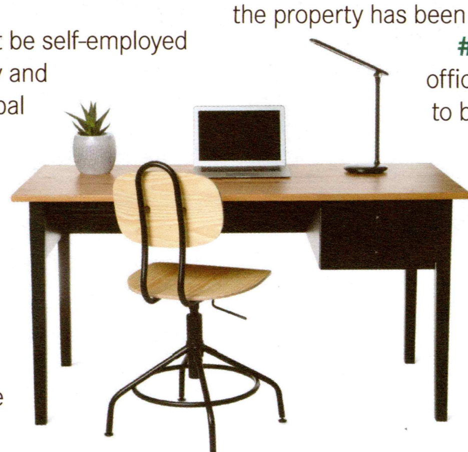


HOME OFFICE

Only Self-Employed Qualify

To take a home office deduction, you must be self-employed and the home office must be used exclusively and regularly for your business and be your principal place of business, with few exceptions. If you receive a W-2 from your employer, you do not qualify for a home office deduction. Second, the home office deduction can only be taken if you itemize your deductions. If your home office qualifies, there are two ways to claim the home office deduction.

#1: You can prorate the usage of your home. For example, if your home office space is 250 square feet and your home is 2,500 square feet, you could claim as a deduction 10% of home-office expenses such as utilities, insurance, repairs, cleaning, taxes, mortgage interest, etc. Be aware, however, any depreciation claimed after May 6, 1997, will be taxed at 25% if the residence is sold for a gain, whether or not the property has been converted to personal use.



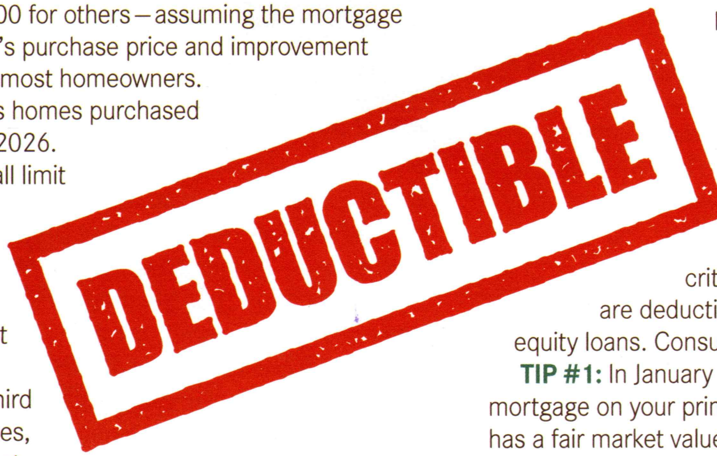
#2: For tax year 2013, a simplified home office deduction calculation was introduced to bypass maintaining detailed expense records. Simply deduct $5 for every square foot of home office space used, up to a maximum of 300 square feet or $1,500. This simplified expense is recorded on Schedule C rather than Form 8829, which allows you to separately deduct mortgage interest and real estate taxes on Schedule A (See MORTGAGE INTEREST and LOCAL TAXES section).

TIP: If you (or your family) use your home office for non-business purposes, it cannot be claimed on your tax return. To claim home-office deductions, the space must be used exclusively and regularly for business purposes.

MORTGAGE INTEREST

Limits And Deductions Remain Unchanged

Interest payments on your original mortgage up to $750,000 for joint filers and $375,000 for others – assuming the mortgage isn't larger than the home's purchase price and improvement costs – are deductible for most homeowners. This $750,000 cap affects homes purchased after Dec. 14, 2017, until 2026. (The $750,000 is an overall limit on "home acquisition" mortgage debt for purposes of deducting interest on up to two homes.) Mortgage interest on a second home is also deductible. If you own a third home for personal purposes, the mortgage interest is not deductible. Interest on home equity loans is often deductible with some limitations.



TIP #1: For many taxpayers, it may be more advantageous to take the standard deductions than to itemize. If you do not itemize, you cannot take the mortgage interest tax deduction. However, if your total itemized deductions are less than the standard deduction, it will not make sense to itemize.

TIP #2: For mortgages taken out more than 90 days after a home purchase, your interest deduction is usually limited to the amount of the original (acquisition) mortgage plus $100,000. However, if you use the new mortgage to improve your home, you can add that amount to the deduction limit, up to the $750,000 cap for couples who are married and filing jointly and $375,000 for others.

HOME SELLING

Tax-Free Profits Remain With Caps

Taxpayers who sell their principal (year-round) residence can pocket – tax-free – as much as $500,000 in profit if they file federal taxes jointly or $250,000 if they file singly. The property must have been owned and used as their principal residence for any two of the prior five years that end on the sale date. Homeowners can shelter the profits on the sale of a home as often as once every two years. If the two-year use and ownership tests are not met, but the home is sold because of special circumstances (i.e., health problem, job loss, etc.), the profit exclusion is prorated. Gains above $500,000 or $250,000 that are taxed at current capital gains rates also may be subject to a 3.8% surtax on Net Investment Income (NII).

TIP: NII includes income from such sources as rents, gains from sales of second homes and gains from sales of investment properties. They're possibly subject to the 3.8% tax, to the extent that gains aren't otherwise offset by capital losses. Browse to *http://bit.ly/IRSNIIT* for further details.

EQUITY LOANS

Deductible For Primary Home Only

When the proceeds from home equity loans (including second mortgages, equity credit lines or some refinancings) are used to buy, build or substantially improve the taxpayer's primary home that secures the loan, the interest on these loans is fully deductible in many cases. All mortgages and equity loans (that meet the above criteria) up to a combined total of $750,000 are deductible. (Note: Some state laws restrict home equity loans. Consult your tax advisor to learn more.)

TIP #1: In January of 2022, you took out a $400,000 mortgage on your primary home that has a fair market value of $800,000. In February of 2022, you took out a $250,000 home equity loan to put an addition on your primary home and make other improvements to the home. Because both loans are secured by the primary home and the grand total of the loans ($400,000 + $250,000 = $650,000) does not exceed the value of the home ($800,000) and the total of all loans does not exceed $750,000, all of the interest paid on both loans is deductible.

TIP #2: If any of the proceeds from home equity loans are used for reasons other than to buy, build or substantially improve the taxpayer's primary home, the interest is NOT deductible. (Example, using home equity proceeds to pay for a child's college tuition, a new car, medical bills, other debt, etc. means you cannot deduct the interest. This applies no matter what date the home equity loan was taken out.)

CALL YOUR PROFESSIONALS

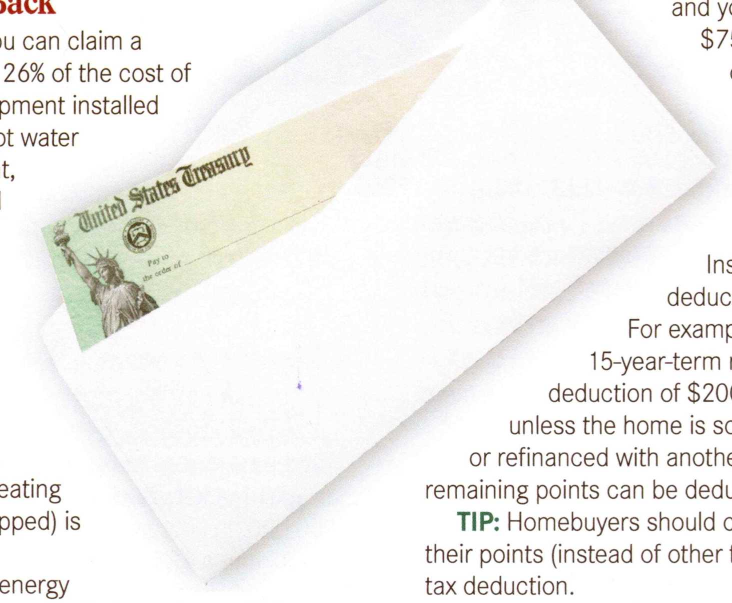
The information contained in this newsletter provides an overview of tax rules and changes that could benefit homeowners. However, you should always check with your tax professional for complete information applicable to your specific situation.

Remember, tax laws frequently change. Your tax professional can help you keep up with these changes.

If you're looking to buy or sell a home, please contact us, your real estate professional.

ENERGY CREDITS

Improvements Pay You Back



On your federal tax return, you can claim a Renewable Energy Tax Credit of 26% of the cost of qualified alternative energy equipment installed on your home, including solar hot water heaters, solar electric equipment, biomass fuel stoves, geothermal heat pumps, fuel cells and wind turbines. The installation must be on a main or second home in the United States, but not on rental property. This tax credit has been extended through calendar year 2032 through the Inflation Reduction Act of 2022. Rooftop solar and geothermal heating installation tax credit (30% uncapped) is retroactive to all of 2022.

TIP: For qualified alternative energy equipment, there is no maximum dollar limit on the credit for most types of property. And, if your tax credit is more than the tax that you owe, you can carry forward unused portions of this credit to next year's return. See IRS Form 5695, Residential Energy Credits, Part I, for more information.

TIP: Called the Non-Business Energy Property Tax Credit, 10% of the cost up to $500 is available for qualified heat pumps, central air conditioners, hot water boilers and heaters, furnaces, fans and biomass stoves only on your existing (not new construction) principal residence before Dec. 31, 2022.

TIP: The Non-Business Energy Property Tax Credit varies based on the type of improvement and a lifetime credit of $500 applies. Some tax credits cover installation while others do not. See IRS Form 5695, Part II, for more information.

DISCOUNT POINTS

Homebuyers Take Note

For homebuyers, deductible expenses include settlement charges for points. Deductible points are upfront charges for the use of money (not services). One point equals 1% of the loan amount. Prepaid points paid by either the buyer or seller are deductible by the buyer in the year of the home purchase because they are considered interest payments. Although some closing service fees are quoted as "points," they are not deductible, unless specified as such on the Closing Disclosure Form, under the "Loan Costs" tab under "Origination Charges." Points may also be listed on Tax Form 1098, issued by your lender. Keep in mind that points are fully deductible only if itemizing and your home loan doesn't exceed $750,000 ($1 million if mortgage was originated before Dec. 14, 2017).

If you paid discount points when refinancing your home, be aware that you may not deduct them in full during the tax year of the refinancing. Instead, you must prorate the deduction over the life of the loan. For example, $3,000 in points paid for a 15-year-term refinanced loan would equal a deduction of $200 ($3,000 ÷ 15 = $200) per year—unless the home is sold before the end of the loan term or refinanced with another lender, at which time all remaining points can be deducted on that year's return.

TIP: Homebuyers should consider having sellers pay their points (instead of other fees) to increase the buyer's tax deduction.

VACATION HOMES

Relax...Deductions Await Second Home Owners

Vacation homes have separate tax rules that vary according to the owner's personal-use days. A residence is a vacation home if the owners used it more than 14 days or 10% of the days it was rented during the year (if rented more than 140 days). If there was rent income, other property expenses may be deductible, including depreciation, but only up to the amount of the rent income (losses are not allowed).

For a vacation home, all mortgage interest and property taxes are usually deductible if using a business tax structure. As an individual, the mortgage interest deduction is capped by the combined total $750,000 limit for married filing jointly and $375,000 for others. If the standard deduction is higher than if you were to itemize, the interest and taxes amounts won't matter for tax calculations.

TIP: For non-vacation rental homes, you may claim rent expense deductions other than interest and taxes, even if it results in a loss. When personal use of a vacation home is involved, deductions are determined by allocating expenses, including interest and taxes, between the rental and personal-use periods. If you rent your vacation home (or principal residence) for 14 days or less a year, you do not have to pay taxes on that rent income.

LOCAL TAXES

Keep Tabs On Totals

Real estate property taxes and state and local income and personal property taxes are deductible as itemized deductions for most tax filers up to a combined total of $10,000.

TIP: If you sold or bought property during the year, you may have paid or been refunded real estate taxes without being aware of it. See your closing statement for any prorations.

2022 UPDATES

Don't forget these important updates when preparing your 2022 tax return:

MORTGAGE INSURANCE: As of the printing deadline, for the 2022 tax year, private mortgage insurance (PMI) and mortgage insurance premiums (MIP) are no longer deductible. Previously, with the passage of the Further Consolidated Appropriations Act of 2020, you were able to deduct any mortgage insurance payments such as PMI or MIP only for tax years 2018 through 2021.

FORGIVEN MORTGAGE DEBT: The Consolidated Appropriations Act of 2021 extended through tax year 2025 the exclusion of forgiven debt by a lender from a taxpayer's income. Any debt that is forgiven by a lender before Jan. 1, 2026 through a short sale, foreclosure, deed in lieu of foreclosure or debt restructuring is not taxable for most taxpayers.