

GET READY!

2023
EDITION

Tax Time Is Around The Corner

As the calendar flips from 2023 to 2024, there is a sudden awareness of a big, looming date barreling toward us: Tax Day, Monday, April 15, 2024.

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 homeownership.

The Inflation Reduction Act of 2022 also has had a beneficial financial impact on select energy saving improvements to your home with the majority of the provisions of that act going into effect during the 2023 tax year.

Seven 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.

Keep in mind that the standard deduction has again increased slightly for 2023 and for individuals is \$13,850 and for married couples filing jointly is \$27,700.

(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 Non-W-2 Workers Qualify

TAX FACTS: 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.

METHOD #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.

METHOD #2: A simplified home office deduction calculation was introduced in tax year 2013 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 sections).

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.

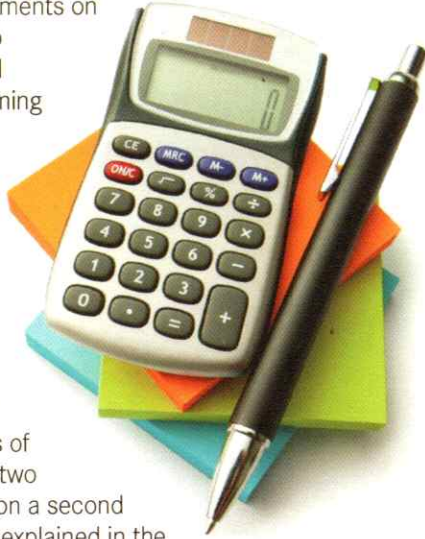
MORTGAGE INTEREST

To Itemize Or Not, Is The Question

TAX FACTS: 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 only 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, as explained in the VACATION HOMES section. 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. Refer to IRS Publication 936 "Home Mortgage Interest Deduction" for more details.

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.



INVESTMENT PROPERTY

Rental Property Owners May Have More Benefits

TAX FACTS: Tax rules allow rental property deductions for mortgage interest and state and local taxes without the limitations put in place for primary homes (see MORTGAGE INTEREST and LOCAL TAXES sections). Other deductions such as depreciation, utilities, insurance, maintenance, travel expenses, etc. are also still deductible.

If your rental property generates a tax loss, passive activity loss (PAL) rules often apply except in cases of material participation. This can get complicated as the PAL rules only allow you to deduct passive income from other sources, such as positive income from other rental properties you own or gains from selling a rental property. Additionally, passive losses that are larger than your passive income are suspended until you have sufficient passive income or gains or sell the property that produced the losses.

Also in effect for tax years 2018 through 2025, the law disallows you from deducting an excess business loss in the current year, referred to as excess business loss (EBL). EBL is defined as the excess of your aggregate business deductions for 2023 over the sum of your aggregate business income and gains for 2023 plus \$500,000 if married filing jointly (or \$250,000 for others). The EBL is suspended and carried forward to the following tax year to be deducted using the net operating loss (NOL) rules.

TIP: This loss deduction rule applies after applying the PAL rules. If the PAL rules don't allow for your rental real estate loss, you don't use the new loss limitation rule. The new rules keep taxpayers from offsetting more than \$500,000 of income for a married, joint filing couple or \$250,000 for others using their current-year business losses.



2023 UPDATES

MORTGAGE INSURANCE: Since the 2022 tax year, private mortgage insurance (PMI) and mortgage insurance premiums (MIP) are no longer tax-deductible.

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.

FIRST-TIME HOMEBUYERS: The Mortgage Credit Certificate Program (MCC) is available in select states to eligible first-time homebuyers who meet the MCC's income and home purchase price restrictions, and use the home as their primary residence. MCC programs allow approved homebuyers to claim a tax credit for up to \$2,000 in mortgage interest paid per year. (The remaining mortgage interest paid may still be calculated as an itemized deduction.) Check with your state's Housing Finance Agency for details.

HOME SELLING GAINS

Benefits To Home Sellers At Tax Time

TAX FACTS: 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 by the couple as a 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 problems, 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).



POINTS

Itemizing? You May Have Deductions

TAX FACTS: 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 \div 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.



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.

DISASTERS

Insurance Issues

TAX FACTS: Special rules apply to federally declared disasters in which you lost property due to the disaster (accident, storm, fire, flood, drought or other unforeseen occurrence). You may also be eligible to file for an extension to file your return and pay your tax bill. You may not have to report insurance proceeds if you use the proceeds to replace the property within a specified time; tax refunds may be made faster by claiming losses after a disaster.

TIP: The prior year’s federal tax return may be amended to include losses in order to receive an immediate refund. Local and state property taxes may also be abated in some cases. Consult IRS Publication 547 “Casualties, Disasters, and Thefts” to find out more.



MOVING

Military Benefits

TAX FACTS: Only members of the military on active duty (or their spouse or dependent) who move due to a military order for a permanent change of station may qualify for a moving-expense deduction. As a bonus for those members of the military who qualify, you do NOT need to itemize deductions to use the moving deduction and you will not have to pay tax on qualified moving expense reimbursements.

Whether a homeowner or renter, you can deduct the cost of moving household goods and the direct cost of moving you and your family. You can also deduct expenses for lodging during the move but not meals. Use Form 3903 to tally your moving deductions, provided your employer did not reimburse you for them.

TIP: For non-military related moves, employers may still reimburse you for any moving expenses you incur, but these reimbursements are now taxable. Keep in mind that these reimbursements will show up on your W-2 as income and may increase your tax liability.

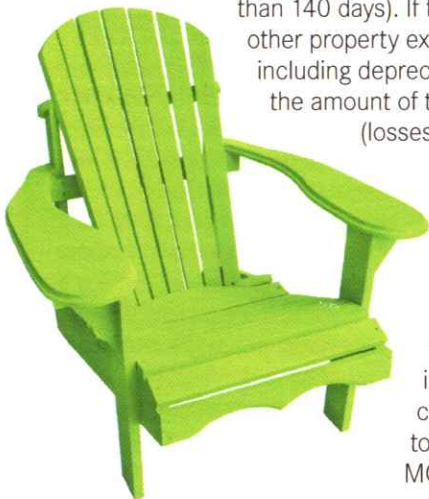


VACATION HOMES

It Gets Complicated If You Rent Your Home

TAX FACTS: 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 (see MORTGAGE INTEREST) for



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ENERGY CREDITS

Make Improvements To Your Home This Year? Get Tax Credits

TAX FACTS: On your federal tax return through 2033, you can claim a Residential Clean Energy Credit of 30% of the cost of qualified alternative energy equipment installed on your home, including solar hot water heaters and electric panels, battery storage technology, geothermal heat pumps, fuel cells and wind turbines. The installation must be on an existing or newly constructed home, but not rental property, in the United States. This tax credit has been extended through 2032 through the Inflation Reduction Act of 2022.

TAX FACTS: Called the Energy Efficient Home Improvement Tax Credit, up to \$3,200 in tax credits are available for taxpayers who have installed qualified exterior doors, windows and skylights; insulation and air sealing materials and systems; central air conditioners; natural gas, propane, or oil water heaters, furnaces, and hot water boilers; heat pumps; water heaters; biomass stoves and boilers; and/or home energy audits on your existing (not new construction) principal residence. This is in effect through 2032 for most items.

TIP #1: For qualified alternative energy equipment, there is no maximum or lifetime dollar limit on the credit except for fuel cell property. See IRS Form 5695, "Residential Energy Credits," for more information.

TIP #2: Each year \$1,200 can be claimed for certain energy efficient home improvements, with limits on doors (\$250 per door and \$500 total), windows (\$600) and home energy audits (\$150). The limit is \$2,000 per year for qualified heat pumps and biomass stoves or boilers. There is no lifetime limit.



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LOCAL TAXES

Don't Forget State Benefits

TAX FACTS: 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. Check with your state for eligibility for homestead exemptions and tax credits.

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.

Don't miss inside: SPECIAL 2023 TAXES EDITION

