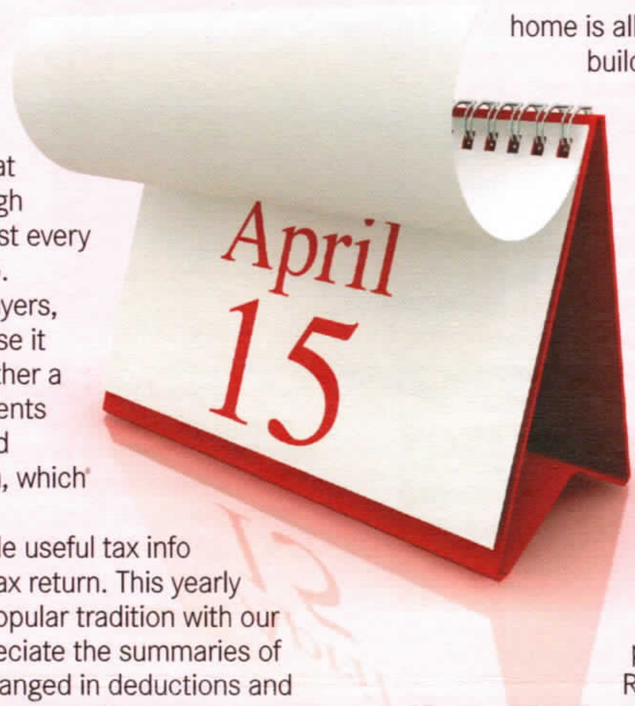
TAX DAY COUNTDOWN 2021

Ready To File Your Federal Tax Return? Owning A Home Can Help You Save More Cash!

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 15.



If you're like most taxpayers, you dread this date because it means you must pull together a myriad of financial documents spanning the past year and make some sense of them, which isn't a fun task.

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.

Whether you've purchased, refinanced or sold a home in 2021, home ownership continues to carry some of the best tax advantages available. Owning a home is all about advantages—from building your financial wealth and addressing housing security, to allowing a commitment to community to grow and provide the ability to be creative inside your home's four walls.

If you're getting ready to file a tax return or make a major decision related to buying, selling, financing or remodeling a home anytime soon, please consult a knowledgeable tax professional for complete information applicable to your specific situation.

For clarification, forms and publications, visit the Internal Revenue Service at *www.IRS.gov.*

Keep reading for some basic home-related tax facts you should be aware of related to financing, owning, buying and selling a home. We look forward to serving your real estate needs in 2022 and beyond!

INVESTMENT PROPERTY

Rental Property Deductions Remain

TAX FACTS: Recently revised 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, etc. are also still applicable.

If your rental property generates a tax loss, passive activity loss (PAL) rules often apply. 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 2021 over the sum of your aggregate business income and gains for 2021 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.

HELPFUL HINT: 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.

TAX-FREE PROFITS

Big Benefits Await Home Sellers

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 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 (e.g., a health problem or job loss), 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).

NOTE: The surtax applies to individuals, estates and trusts that have Modified Adjusted Gross Incomes (MAGIs) that exceed certain thresholds. For individuals, the thresholds are $250,000 for married couples filing joint returns; $125,000 for married couples filing separate returns; and $200,000 for single persons, heads of households and qualifying widows/widowers (surviving spouses who qualify for the same breaks as married couples for two years after a spouse's death).

The surtax is imposed on the lesser of (A) NII or (B) the excess of (1) MAGI over (2) the threshold amount. For example, a couple's NII is $200,000, MAGI is $300,000, and threshold is $250,000. Their surtax is $1,900 – 3.8% of $50,000 ($300,000 MAGI minus $250,000 threshold).

What happens when home sellers have MAGIs that exceed the applicable threshold of $250,000, $125,0000 or $200,000? They may be subject to the 3.8% tax on gains from sales that exceed the profit exclusions of $500,000 or $250,000. But they are liable for the tax only on the amount by which MAGI exceeds the threshold. Even if liable, sellers still can take profit exclusions of $500,000 or $250,000.

HELPFUL HINT: 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.

MORTGAGE INTEREST

Mortgage Totals Affect Deductibility

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 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.

HELPFUL HINT #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.

HELPFUL HINT #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.

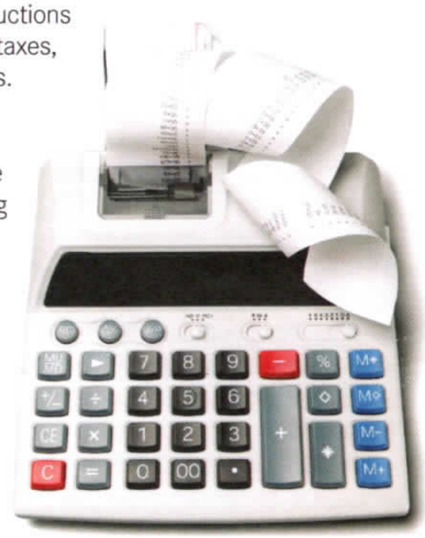
VACATION HOMES

Personal-Use Days Key To Calculations

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.

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 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.

HELPFUL HINT: 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.



MOVING EXPENSES

Only Military Personnel Can Deduct Relocation Costs When Moving

TAX FACTS: Only members of the military on active duty (or their spouse or dependents) 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.

HELPFUL HINT: 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.

HOME OFFICE

Only Self-Employed Workers Qualify For Home Office Deductions

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.

#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, that 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 sections.)

HELPFUL HINT: 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.

POINTS

Buyers Benefit At Tax Time

TAX FACTS: For home buyers, 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).

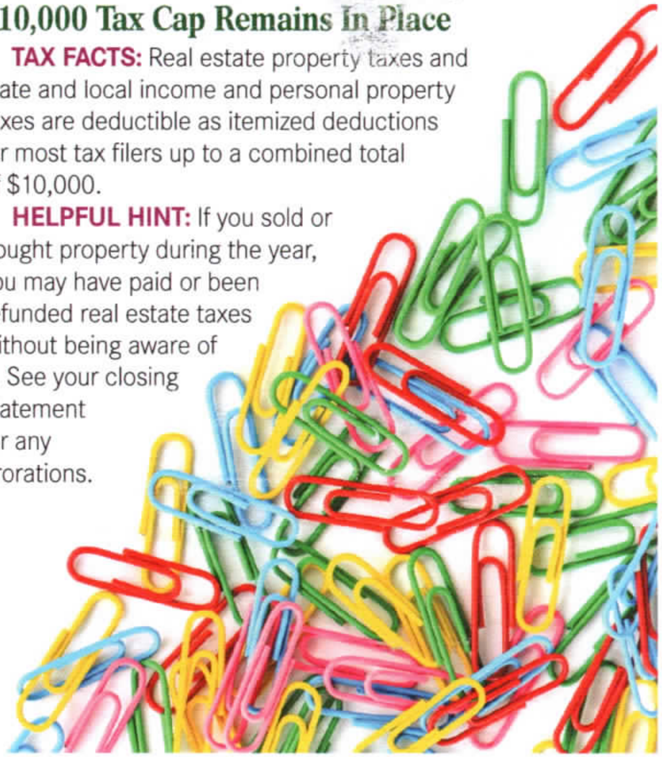
If you paid discount points when refinancing your home, be aware that you may not deduct them in full during the tax year of the refinancing. Instead, you must prorate the deduction over the life of the loan. For example, $3,000 in points paid for a 15-year-term refinanced loan would equal a deduction 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.

LOCAL TAXES

$10,000 Tax Cap Remains In Place

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.

HELPFUL HINT: 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.



2021 UPDATES

Don't forget these important updates when preparing your 2021 tax return:

MORTGAGE INSURANCE: For the 2021 tax year, private mortgage insurance (PMI) and mortgage insurance premium (MIP) remain deductible under certain conditions. With the Consolidated Appropriations Act of 2021, the deductibility of mortgage insurance payments such as PMI or MIP was extended through tax year 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.