TAX TIME BENEFITS

2025 EDITION

Home Sellers, Buyers, Investors: Your Home Affects Your Taxes

The One Big Beautiful Bill Act (OBBB) of 2025 has greatly changed tax laws and extended tax cuts from the Tax Cuts and Jobs Act (TCJA) of 2017 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.

It is also important to note that the Inflation Reduction Act of 2022 that has had a beneficial financial impact on making select energy-saving improvements to your home has ended as of Dec. 31, 2025.

The standard deduction has increased slightly for 2025. For individuals, the amount is $15,750, and for married couples filing jointly, it is $31,500. (Those numbers are different for individuals older than 65, those who are legally blind, or heads of households.) Additionally, for tax years 2025 – 2028, seniors will receive a $6,000 boost to their filing thresholds; however, eligibility depends on income thresholds.

Here are some basic home-related tax facts you should be aware of. We will provide updates as changes occur. 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.

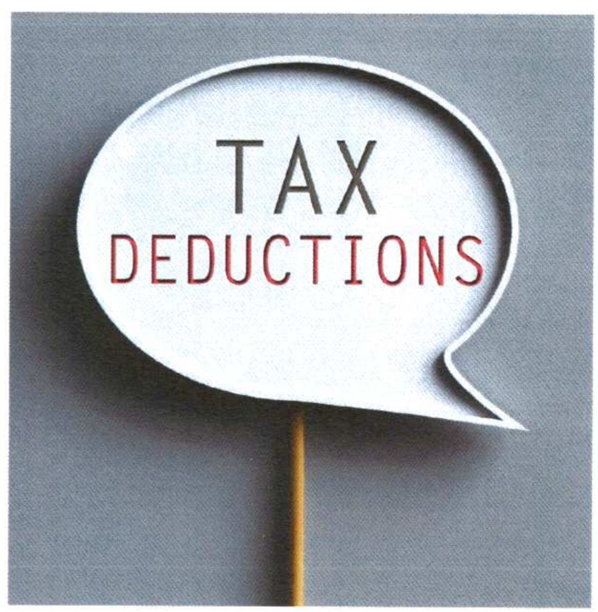
MOVING

TAX FACTS: Since 2018, 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.

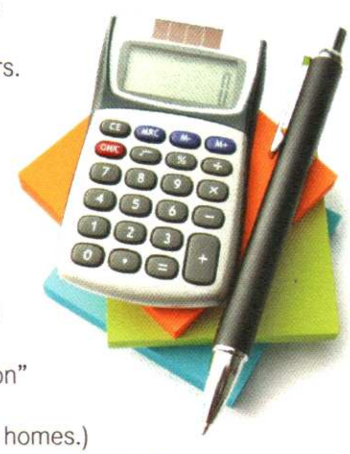
The deduction is available for moves within the United States or its possessions. For moves to locations outside the U.S. or its possessions, different rules may apply.

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.



INTEREST

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, through 2030. However, it is important to note The One Big Beautiful Bill made the $750,000 principal limit for the home mortgage interest deduction a permanent provision.(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, taking the standard deductions may be more advantageous than itemizing. You cannot claim the mortgage interest tax deduction if you do not itemize your deductions. However, if your total itemized deductions are less than the standard deduction, it will not make sense to itemize.

TIP #2: If you use a new mortgage to improve your home, you can add that specific amount to the deduction limit, up to the $750,000 cap for couples who are married and filing jointly and $375,000 for others.

2025 UPDATES

Don't forget these important updates when preparing your 2025 tax return:

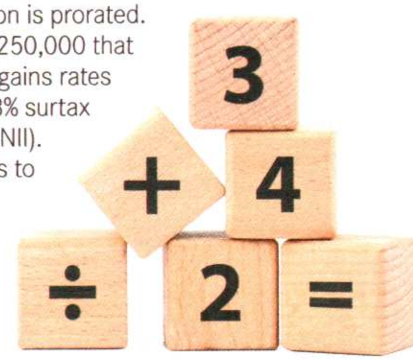
FORGIVEN MORTGAGE DEBT: The Consolidated Appropriations Act of 2021 extended through tax year 2025 the exclusion of forgiven debt by a lender from a taxpayer's income. Any debt that is forgiven by a lender before Jan. 1, 2026, through a short sale, foreclosure, deed in lieu of foreclosure or debt restructuring 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.

MORTGAGE INSURANCE: Since the 2022 tax year, private mortgage insurance (PMI) and mortgage insurance premiums (MIP) are no longer tax-deductible. However, The One Big Beautiful Bill reinstated the deduction and made it permanent beginning in tax year 2026.

GAINS

TAX FACTS: Taxpayers who sell their principal residence can pocket – tax-free – as much as $500,000 in profit if they file federal taxes jointly or $250,000 for single filers. 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. Note that the IRS does not require ownership and use to be concurrent. You could potentially own the home for five years, live in it for two years, rent it for three years, and still qualify. The IRS allows homeowners to shelter the profits on the sale of a home as often as once every two years. However, if the two-year use and ownership tests are not met, but the home is sold because of unforeseen circumstances (e.g., 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).



NOTE: The surtax applies to individuals, estates, and trusts that have Modified Adjusted Gross Income (MAGI) that exceeds 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 the 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 Visit *http://bit.ly/IRSNIIT* for further details.

DISASTERS

TAX FACTS: Special rules apply to federally declared disaster areas 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.

HELPFUL HINT: The prior year's federal tax return may be amended to include losses 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.

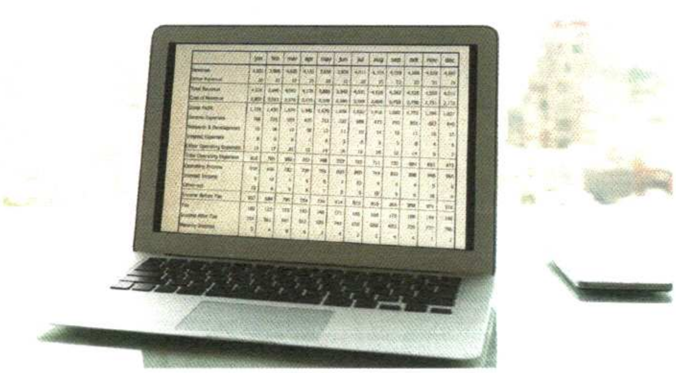
RENTALS

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 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.

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 2025 over the sum of your aggregate business income and gains for 2025 plus $626,000 if married filing jointly (or $313,000 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 $626,000 of income for a married, joint filing couple or $313,000 for others using their current-year business losses.



HOME OFFICE

TAX FACTS: To claim a home office deduction, you must be self-employed and the home office must be used exclusively and regularly for your business, and it must 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 is claimed on Form 8829 and Schedule C for self-employed individuals, where it is claimed with all other business expenses. If your home office qualifies, you have two options 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. This is known as depreciation recapture.

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. With the simplified method, you can't deduct any actual costs related to the home office (except for mortgage interest and property taxes on Schedule A if itemizing). (See 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.

VACATION HOMES

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 there was rental 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 INTEREST section) 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.

HELPFUL HINT: As of January 1, 2025, short-term rental (STR) owners can now write off 100% of the cost of qualified property (including furniture, appliances, improvements, etc.) in the year they were placed into service, financially benefiting STR homeowners the most during the first year of ownership. This is in effect for properties put in rental service 2025 through 2030. The qualified business income (QBI) deduction is now permanent, offering a 20% deduction on net rental income for owners who treat their STR as a business. Consider moving your STR to a business tax structure to take advantage of these lucrative tax benefits.

POINTS

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 you itemize and your home loan doesn't exceed $750,000 ($1 million if the mortgage originated before December 14, 2017).

If you paid discount points when refinancing your home, be aware that you may not be able to 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.

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

LOCAL TAXES

TAX FACTS: Real estate property taxes and state and local income and personal property taxes, often referred to as SALT, are deductible as itemized deductions for most tax filers up to a combined total of $40,000 for tax year 2025, up from $10,000 in 2024. This amount will increase 1% each year through 2029. Check with your state for eligibility for homestead exemptions and tax credits.

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.

Don't miss inside: SPECIAL EDITION 2025 TAXES