

Tax Advantages of Homeownership

Owning a home could save consumers thousands of dollars in taxes.* Under federal law, homeowners may deduct the interest paid on a mortgage loan.

Home buyers often overlook or underestimate the tax benefit of deducting interest paid on a home loan. And, considering its long-term impact, interest rate deductions should be a determining factor when purchasing a home.

The Specific Tax Advantages Of Homeownership Are Based On Several Factors:

- Annual income
- Federal income tax bracket of a household
- Amount and interest rate of the mortgage loan
- Annual property taxes paid on the property

The mortgage interest deduction is highest in the initial years, declining over time with the loan balance. The first few years of homeownership often provide the greatest tax benefits.

Over Time, Other Tax Benefits May Apply:

- Interest costs on a second mortgage or home equity loan (with a principal balance of up to \$100,000) are deductible
- Capital gains taxes on the sale of the home can be avoided if the owner had lived in the home at least two of the last five years before the sale
- If this is the first time you have owned a property, there may be additional deductions by switching from a standard to an itemized return

Individuals are encouraged to consult a tax advisor about appropriate federal or state income tax benefits and deductions. Renters thinking about buying a home should also consult a tax advisor about the benefits of homeownership.

Buy vs. Rent Comparison**

This chart shows a cost comparison for a renter and a homeowner over a seven-year period.

1. The renter starts out paying \$800 per month with annual increases of 5%
2. The homeowner purchases a home for \$110,000 and pays a monthly mortgage of \$1,000
3. After 6 years, the homeowner's payment is lower than the renter's monthly payment
4. **With the tax savings of homeownership, the homeowner's payment is less than the rental payment after 3 years**

Years	Rent Payment	Mortgage Payment	Monthly Difference	After Tax Savings	Yearly Difference	After Tax Savings
1	800	1000	-200	-50	-2400	-600
2	840	1000	-160	-10	-1920	-120
3	882	1000	-118	+32	-1416	+384
4	926	1000	-74	+76	-888	+912
5	972	1000	-28	+122	-336	+1464
6	1021	1000	+21	+171	+252	+2052
7	1072	1000	+72	+222	+864	+2664
8-30			savings increase every year!			

Edina Realty

Jim Jaeckels

Realtor

952-924-8741

jamesjaeckels@edinarealty.com

Edina Realty Mortgage

Kara Egan

Home Mortgage Consultant

952-924-8771

karaegan@edinarealty.com

* Consult with your tax advisor for guidance relating to your specific circumstances.

**Source: www.ginniemae.gov

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