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# Taxes for Homeowners: What You Need to Know Before Filing Your 2019 Return

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Taxes for homeowners have undergone some serious revisions in the last couple of years. The 2017 Tax Cuts and Jobs Act altered the way many homeowners file their taxes, mostly because of substantial increases in the Standard Deduction. Here is what you need to know about 2019 tax breaks for homeowners before filing your return.

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## What Can Homeowners Deduct on 2019 Returns?

The latest tax changes did not eliminate deductions for homeowners. They did, however, limit them for some and make them irrelevant for others.

### Mortgage interest deduction

For mortgages closed on or before December 15, 2017, joint filers can deduct mortgage interest on the first $1 million of debt. For loans closed on December 16, 2017 or later, joint filers can deduct mortgage interest on the first $750,000 of mortgage debt. This amount is halved for single filers or married taxpayers filing separately.

Your mortgage lender should send you a Form 1098 indicating the amount of interest that you paid in 2019. You would deduct your interest on a Schedule A.

### Home equity loan interest deduction

Prior to the 2017 Act, homeowners could deduct interest on up to $100,000 of home equity debt, and it did not matter how the funds were used. Today, you can no longer

deduct interest for home equity debt - regardless of when that debt was incurred - unless the loan proceeds were used to acquire or improve your property.

Purchase money second mortgage interest qualifies for the deduction. So does the interest on a home equity loan to renovate your house. But borrowing to make repairs does not qualify. Note also that just because you were able to deduct interest on a home equity loan taken out before the passage of the Act does not mean you can continue to take the deduction. You can continue to deduct your interest only if the debt qualifies under the Act today.

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## Property tax deduction

If you itemize, you can deduct your home property taxes - to a point. Your tax deduction maxes out at $10,000 for all state and local taxes, including property taxes. So if your state income or sales tax deduction plus your property tax exceeds $10,000, you won't be able to deduct everything you paid. And if you're single or married filing jointly, that drops to just $5,000.

## Home office deduction

Regardless of whether you own or rent, if your home office qualifies, you can deduct the cost of maintaining it on a Schedule C, E or F. You can choose one of two ways to calculate your deduction. The easiest way is to simply deduct $5 per square foot for up to 300 square feet of dedicated office space. ("Dedicated" means you only use this space for work.) If your office is 200 square feet, your deduction is $1,000.

However, you might get a bigger deduction by adding up the actual expenses of maintaining that space. Normally, you calculate the total household maintenance, including utilities, cleaning, repairs, mortgage interest (if not deducted on Schedule A), and then divide by the percentage of your home's square footage allocated to your office. So if your entire 2,000 square foot home maintenance costs $20,000 per year, and your office is 400 square feet (20% of the home), you would deduct $4,000 (20% of $20,000). You'd also add expenses specific to the home office, for instance, installing office equipment.

## Rental deduction

If you rent out part of your home, either to a long-term tenant or through a service like Airbnb, you can deduct the expenses related to that enterprise, up to the amount of rental income.

You can fully-deduct amounts related to just the room(s) you rent - repainting the interior of the room, for example, or a television for that room only. You can also deduct depreciation for the room(s) that you rent.

For costs related to the entire home, you can partially deduct them. Such expenses may include

- home mortgage interest
- repainting the entire home exterior or replacing the roof
- homeowners' insurance
- utilities - gas, electricity, heating oil
- gardening and/or housekeeping services for the entire home
- trash removal
- snow removal
- home security system or service
- condominium association fees

Note that unlike full-time real estate investors who actively manage their rentals, you can't deduct losses that exceed the amount of your rental income.

## What about mortgage insurance?

### Mortgage insurance is no longer deductible.

*Related: What's the Point of Paying Points?*

### Mortgage closing costs

Can you deduct closing costs when you refinance or buy a home? Yes, and no. Here are fully-deductible costs that you can deduct when you close on a home purchase:

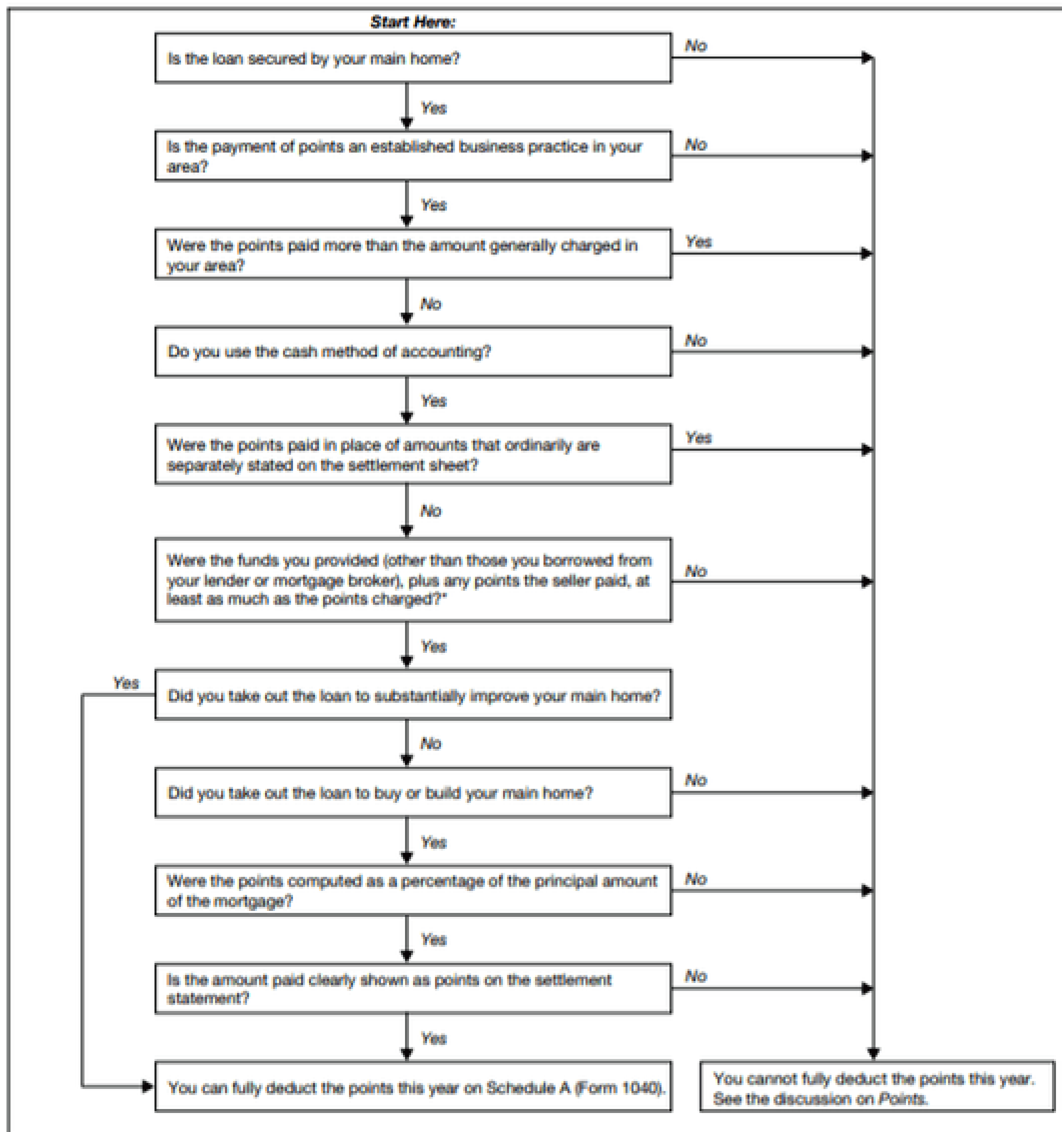
- Sales taxes at closing
- Real estate taxes
- Mortgage interest paid at closing
- Loan origination fees calculated as a percentage of the loan amount (points)

You can deduct points paid on a home improvement loan to improve your home in the year that you close on the loan. But you must prorate over time any points paid to refinance.

Here is how prorating your closing cost deduction works: You deduct these costs over the life of the loan in equal amounts each year. If you pay $3,000 in refinance points for a 30-year mortgage, you get to deduct $100 per year ($3000 / 30). If you pay off the loan early, you can deduct the remaining points. After ten years in this example, you'd deduct the remaining $2,000 if you refinanced or sold your home.

The IRS created this fun chart you can look at to see when your points are deductible.

Figure A. **Are My Points Fully Deductible This Year?**




* The funds you provided are not required to have been applied to the points. They can include a down payment, an escrow deposit, earnest money, and other funds you paid at or before closing for any purpose.

# What if I Sold My Home in 2019?

If you lived in your home for at least two of the last five years, you can exclude up to $500,000 ($250,000 if single or married filing separately) of the gain on your home sale from income taxes.

"Gain on sale" for tax purposes equals the net sales proceeds (after closing costs) minus the cost of acquiring and improving the property. Note than some of the closing costs you can't deduct when you purchase a home are considered acquisition costs and reduce your taxable amount when you sell the property. The acquisition cost plus improvements is called your "basis." Your net proceeds minus your basis equals your gain. If that exceeds your exclusion ($500,000 or $250,000), you'll report your taxable profits on Schedule D.

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# Check Your Standard Deduction

You can only deduct mortgage interest, property taxes and home equity interest if you itemize your deductions. The home office deduction applies almost exclusively to self-employed taxpayers, as you can no longer deduct unreimbursed business expenses.

When should you itemize your tax deductions? Only when your total itemized deductions exceed the standard deduction. Itemized deductions include mortgage interest and property taxes, but also state income tax or sales tax, charitable contributions, and qualifying medical expenses.

*Note that many who itemized before the 2018 Tax Cut and Jobs Act no longer do.* That is because the standard deduction was increased substantially. Here are the thresholds for 2019:

- $24,400 for married couples filing jointly
- $18,350 for heads of household
- $12,200 for single filers or married filers filing jointly.

Note that if you are married and filing jointly, one of you can't take the standard deduction while the other itemizes. You have to both use the same method. In addition, some deductions that you might have taken in the past are no longer allowed. These include: tuition and fees, unreimbursed employee expenses, tax preparation costs and casualty and theft losses.

# Does Buying a Home Help at Tax Time?

For many, the answer is…maybe. Assuming that you could shelter little-to-no income by itemizing unless you owned a mortgage property, your mortgage and property taxes would make up the bulk of your Schedule A deductions. Singles with lower standard deductions and more expensive homes would be more likely to break the threshold. But remember that $750,000 limit? And that $10,000 maximum for state and local taxes? And the fact that single filers have their deductions slashed by 50%?

You don't just have a floor; you also have a ceiling.

So to determine if buying a home would help you at tax time, you must consider:

- The interest deduction you'd receive. You can estimate this with an amortization calculator or ask a loan officer
- Your deductible state income (or sales tax) plus your estimated property tax (ask a lender or real estate agent)
- Your filing status - remember that if you are single or married and filing separately, your maximum deductible mortgage amount is halved. So is your state and local tax deduction

In general, single filers have less trouble hitting the point at which the mortgage deduction lowers their taxable income because their standard deduction is lower. But higher-earning singles with expensive homes benefit less than joint filers, whose limits are twice as high. It's interesting that under these simple tax brackets, filing and planning may have become a lot more complicated.


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