

As newlyweds, my husband and I are seriously considering purchasing a home. However, from what we are hearing in the news about the possibility of the elimination of deducting mortgage interest, we're starting to have second thoughts. What is your take on this issue?

A combination of large budget deficits, an election year and high numbers of bank foreclosures on residential real estate make for an interesting combination of events and current discussions about proposals coming out of Washington DC. The search for ways to raise significant tax revenues to try and partially eliminate a portion of the ongoing budget deficits has resulted in proposals to eliminate or restrict deductions to an area long off limits to politicians. A reduction in both mortgage interest on personal residences and real estate tax deductions has been entered into various proposals to try and reduce deficits

With the housing markets still not fully recovered from recent lows and bank foreclosures continuing to run at a higher than normal pace, any tax policy changes that might negatively affect the health of the housing market would seem to have little if no hope of being seriously considered. However, in today's strange world of political maneuvering where the word compromise and common sense seem to have little meaning, nothing can be considered completely safe.

As a matter of fact, both the mortgage deduction and the deduction for real estate taxes on a personal residence already are subject to certain limits that can affect certain taxpayers due to the amount of the deductions or their level of income. In the next several paragraphs, we will discuss those limits and the general rules concerning both mortgage interest and real estate taxes.

Real estate taxes are deductible on your personal residence, but only to the extent that one is able to itemize deductions. The Internal Revenue Service gives a taxpayer the option of using the standard deduction or itemizing deductions. The higher of the two amounts can be deducted from income prior to calculating the federal tax. Two of the major components of the itemized deductions are taxes, state and local income tax and real estate tax on one's residence, and mortgage interest. There is no dollar limit on the deduction of real estate taxes but the deduction can be eliminated if the taxpayer is subject to the alternative minimum tax which will be discussed briefly later in this article.

Mortgage interest is deductible to the extent that it is paid on what is termed the taxpayer's "qualified residence". This term is defined in Internal Revenue regulations and is basically the residence that is used as the taxpayer's principal residence, although certain second homes can be designated as such. Only acquisition indebtedness that meets certain dollar limitations and was used to acquire, construct or substantially improve the taxpayer's qualified residence qualifies. The aggregate amount of debt that may be treated as acquisition indebtedness for any period can't exceed \$1,000,000. The debt must be secured by the personal residence. While this amount may seem high consider the cost of housing in other areas of the country such as New York or California.

In addition to acquisition debt, home equity indebtedness, which is any debt other than acquisition indebtedness that is secured by the taxpayer's qualified residence is deductible to the extent the aggregate amount of this type of indebtedness does not exceed \$100,000. In the case of both acquisition indebtedness and home equity indebtedness, there are a number of other rules that need to be met in order to deduct the interest. These will not be discussed in detail in this article. See IRS Publication 535 for more details.

After meeting all the requirements previously listed there is still a possibility that the deductions may be eliminated or reduced by the imposition of the alternative minimum tax



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calculation. A simple way of describing this tax is that it is a “flat” tax that is calculated by adding back to taxable income certain items referred to as tax preference items and calculating a tax at a flat rate (depending on your income level) on this higher adjusted taxable income number. The higher of the regular tax or the tax arrived at under the alternative minimum tax calculation, is the tax you pay for the year.

One of the items added back for the calculation is state and local taxes including real estate taxes on your residence. Another add back is the tax on home equity indebtedness. Many people pay this alternative minimum tax and do not realize that it has in effect eliminated a portion of the tax and mortgage interest deductions that they thought were being generated by their personal residence. When preparing your tax return or having it prepared by a professional, ask what the true tax savings generated from your personal residence is for the year. In many cases it may be substan-

tial but in others, it may not be as much of a benefit as you might think.

Should you have additional questions, don't hesitate to call us as 717.569.2900.

As a first-time homeowner, I freely admit that I know little, VERY little about homeownership and the various household responsibilities that go along with it. For instance, I know absolutely nothing about plumbing let alone heating, cooling and the other mechanical stuff that can go on the fritz . I don't even know what I don't know. Do you have any words of wisdom to share?

After 35 years in the plumbing and HVAC service business I guess it's about time for me to divulge some of our insider closely held secrets with all of you.

1. Lancaster County is blessed with an abundance of superior plumbing and HVAC service businesses who deliver exceptional customer service. It takes a lot of effort for any company to remain in the top tier and that competition benefits you the consumer. Websites, Facebook, and Twitter are great but talking with your neighbor or a friend is still the best way to choose a company to work in your home on your mechanical systems.

2. Anode Rods. Although you may not have ever heard of an anode rod it is the “sacrificial lamb” that prevents your water heater from leaking. Having it checked every 2-3

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