Saving tax with home-related deductions and exclusions

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Currently, home ownership comes with many tax-saving opportunities. Consider both deductions and exclusions when you're filing your 2016 return and tax planning for 2017:

Property tax deduction. Property tax is generally fully deductible — unless you're subject to the alternative minimum tax ("AMT").

Mortgage interest deduction. You generally can deduct interest on up to a combined total of $1 million of mortgage debt incurred to purchase, build or improve your principal residence and a second residence. Points paid related to your principal residence also may be deductible.

Home equity debt interest deduction. Interest on home equity debt used for any purpose (debt limit of $100,000) may be deductible. But keep in mind that, if home equity debt isn't used for home improvements, the interest isn't deductible for AMT purposes.

Mortgage insurance premium deduction. This break expired December 31, 2016, but Congress might extend it.

Home office deduction. If your home office use meets certain tests, you generally can deduct a portion of your mortgage interest, property taxes, insurance, utilities and certain other expenses, and the depreciation allocable to the space. Or you may be able to use a simplified method for claiming the deduction.

Rental income exclusion. If you rent out all or a portion of your principal residence or second home for less than 15 days, you don't have to report the income. But expenses directly associated with the rental, such as advertising and cleaning, won't be deductible.

Home sale gain exclusion. When you sell your principal residence, you can exclude up to $250,000 ($500,000 for married couples filing jointly) of gain if you meet certain tests. Be aware that gain allocable to a period of "nonqualified" use generally isn't excludable.

Debt forgiveness exclusion. This break for homeowners who received debt forgiveness in a foreclosure, short sale or mortgage workout for a principal residence expired December 31, 2016, but Congress might extend it.

The debt forgiveness exclusion and mortgage insurance premium deduction aren't the only home-related breaks that might not be available in the future. There have been proposals to eliminate other breaks, such as the property tax deduction, as part of tax reform.

Whether such changes will be signed into law and, if so, when they'd go into effect is uncertain. Also keep in mind that additional rules and limits apply to these breaks. Please contact us for information on the latest tax reform developments or which home-related breaks you're eligible to claim.

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