

Tax Tips for New Homeowners

Closing Cost Deduction

The closing statement to a real estate purchase contains many potential tax deductions. Treatment of closing statement line items differ depending on whether the property is business (rental) property or used for a personal residence.

- You can **deduct your home mortgage interest** (and certain points) on your tax return if you (1) itemize deductions, and (2) the mortgage is a secured debt on your main home or second home. The loan may be a mortgage, second mortgage, line of credit or home equity loan. You should receive Form 1098 from the mortgage company showing the total interest you paid during the year. Include the amount you paid in interest on Schedule A (Form 1040), line 10.
- **Real estate taxes** are generally deductible. These include state and local taxes based on the value of your property. Taxes charged that improve the value of the property (assessments for sidewalks, water mains, sewer lines, parking lots) that are not for maintenance or repair can't be deducted. Deduct your real estate taxes on Schedule A (Form 1040), line 6.

The first-time homebuyer credit is no longer available. Some homebuyers who used the first-time homebuyer credit in 2008, 2009 or 2010, or sold their home, may have received a notice to repay the credit.

No. Property hazard insurance premiums cannot be deducted, even though this type of insurance is usually required to get a home loan. Some other nondeductible home ownership expenses include:

- Home repairs
- Closing costs and additional principal payments on your mortgage
- Depreciation of your home
- Local assessments to increase the value of your neighborhood (new sidewalks, water and sewer lines, etc.)
- Home ownership association fees

Below is a summary of a typical tax treatment of major line items of the often used 2 page HUD-1 closing statement. However, there may also be certain items that are treated differently depending on your particular situation.

A notation of 'Basis' refers to costs that become part of the total capitalized cost of the property and not currently deductible, however, these costs can be deducted at the time of sale, or earlier via depreciation if they relate to rental property.

Deductible items are in bold. Nondeductible items are in red. If the item is not coded, in most cases, it is just added to the Basis of your home.

NOTE: How you treat each item also depends on whether the home is your Personal Residence (*left column*) or if it is a Rental Property (*right column*).

HUD-1 Line #	Closing Statement Description	Tax Treatment - Personal Residence	Tax Treatment - Rental Property
101	Contract Sales Price	Basis - is relevant if property is later sold or rented	Basis - building portion eligible for depreciation
102	Personal Property	Basis - is relevant if property is later sold or rented	Basis - eligible for accelerated depreciation
103	Settlement Charges	See lines 700-1305 below	See lines 700-1305 below
104-105	Miscellaneous	Varies	Varies
106	City/town taxes (See line 210 below)	Deductible as itemized deduction on Form 1040 schedule A	Deductible as rental expense
107	County taxes (See line 211 below)	Deductible as itemized deduction on Form 1040 schedule A	Deductible as rental expense
108	Assessments (See line 212 below)	LID assessments are part of Basis, other assessments are typically non-deductible.	LID assessments are part of Basis, other assessments are typically deductible.
109-112	Miscellaneous	Varies	Varies
210	City/town taxes (See line 106 above)	This credit reduces deductible taxes on line 106 above	This credit reduces deductible taxes on line 106 above
211	County taxes (See line 107 above)	This credit reduces deductible taxes on line 107 above	This credit reduces deductible taxes on line 107 above
212	Assessments (See line 108 above)	This credit reduces assessments on line 108 above	This credit reduces assessments on line 108 above
213-216	Miscellaneous	Varies	Varies
700-703	Sales & Realtors Commissions	Basis	Basis
801	Loan Origination Fee	Deductible as itemized deduction ('points') on Form 1040 schedule A	Amortized over term of mortgage
802	Loan Discount	Deductible as itemized deduction ('points') on Form 1040 schedule A	Amortized over term of mortgage
803	Appraisal Fee	Basis	Basis
804	Credit Report	Non-deductible	Basis
805	Inspection Fee	Basis	Basis
806	Mortgage Insurance Fee	Non-deductible	Amortized over term of mortgage
807	Assumption Fee	Non-deductible	Amortized over term of mortgage
808-811	Miscellaneous	Varies	Varies
901	Prorated Interest	Deductible as itemized deduction - this interest typically included in year end interest statement (Form 1098)	Deductible as rental expense - this interest typically included in year end interest statement (Form 1098)
902	Mortgage Insurance	Non-deductible	Amortized over term of mortgage
903	Hazard Insurance	Non-deductible	Deductible as rental expense
904-905	Miscellaneous	Varies	Varies
1001	Hazard Insurance	Non-deductible	Reserves - deductible when paid from escrow
1002	Mortgage Insurance	Non-deductible	Reserves - amortizable when paid from escrow
1003	City property taxes	Reserves - deductible as itemized deduction when paid	Reserves - deductible when paid from escrow

		from escrow	
		Reserves - deductible as itemized deduction when paid from escrow	Reserves - deductible when paid from escrow
1004	County property taxes		
1005	Assessments	Varies	Varies
1006-8	Miscellaneous	Varies	Varies
1101	Settlement Fees	Basis	Basis
1102	Abstract or title search	Basis	Basis
1103	Title Examination	Basis	Basis
1104	Title Insurance binder	Basis	Basis
1105	Document Preparation	Basis	Basis
1106	Notary Fees	Basis	Basis
1107	Attorneys Fees	Basis	Typically part of Basis, if tenant related may be amortized over term of lease(s)
1108-1110	Title Insurance	Basis	Basis
1111-1113	Miscellaneous	Varies	Varies
1201	Recording Fees	Basis	Basis
1202	City/County tax stamps	Basis	Basis
1203	State tax/stamps	Basis	Basis
1204-05	Miscellaneous	Varies	Varies
1301	Survey	Basis	Basis
1302	Pest Inspection	Basis	Basis
1303-1305	Miscellaneous	Varies	Varies

The above table summarizes tax treatment to buyers of properties - for sellers, these costs (*including remaining Basis*) are deducted at the time of sale, with the exception of costs that are specifically noted as non-deductible. Of course, capital gains may not be recognized if the property is a personal residence qualifying for the \$ 250,000/\$ 500,000 capital gain exclusion, or a rental property disposed of via a tax free exchange.