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Get an **A** on your Schedule **A** Form

Dodge these tax deduction pitfalls to save time, money, and an IRS Audit

Trap #1: Line 10 - Properly Deducting Points

Deduct points paid on a refinance, but not all at once, says David Sands, a CPA with Buchbinder Tunick & Co LLP. Rather, deduct them over the life of your loan. If \$1,000 in points were paid for a 10-year refinance, you're entitled to deduct only \$100 per year on your Schedule A Form.

Trap #2: Line 10 - HELOC Limits

On a home equity line of credit (HELOC), generally deduct the interest on it only up to \$100,000 of debt each year says Matthew Lender, a CPA with Eisner Lubin LLP.

For example, a HELOC for \$200,000, the bank will send the Form 1098 for interest paid on \$200,000. deduct only the interest paid on \$100,000. If you just pull the number off Form 1098, you'll deduct more than you're entitled to.

Trap #3: Line 13 - Private Mortgage Insurance

Deduct PMI on your Schedule A Form, as long as you started paying the insurance after Dec. 31, 2006. Congress renewed the PMI deduction for 2012 and 2013 for people making less than \$110,000.

For those thinking about it, this is also a good time to review your PMI: **You might be able to cancel your PMI** altogether if your home value has risen and the amount owed on the mortgage has gone down.

Trap #4: Line 6 - Real Estate Taxes

The monthly mortgage payment often includes money for a tax escrow, from which the lender pays the local real estate taxes.

The money sent the bank may be more than what the bank pays for the taxes, says Julian Block, a tax attorney and author of Julian Blocks Home Sellers Guide to Tax Savings. Its easy to put the wrong number on Schedule A. Example: if the monthly payment to the lender is \$2,000 for mortgage + \$500 escrow for the annual property tax bill = \$5,500. Now do the math:

If the bank received \$6,000 for real estate taxes, but only paid \$5,500. It may keep the extra \$500 to apply to the next tax bill or refunded at some point, but meanwhile, it's a mistake to enter \$6,000 on Schedule A. Instead, take the number from Form 1098 that the bank sends each year that shows the actual taxes paid.

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Trap #5: Line 6 - Tax Calculations For Recent Buyers and Sellers

If the home was bought or sold in the middle of the year, figuring out what to put on line 6 of your Schedule A Form is tricky.

Don't simply enter the number from the property tax bill on line 6 as you would if you owned the house the whole year. Instead use the property tax amount listed on your HUD-1 closing statement, says Phil Marti, a retired IRS official.

Here is why: Generally, depending on the local tax cycle, either the seller gives the buyer money to pay the taxes when they come due or, if the seller has already paid taxes, the buyer reimburses the seller at closing. Those taxes are deductible that year, but won't be reflected on your property tax bill.

Trap #6: Line 20 - Casualty and Theft Losses

Deduct part or all of losses caused by theft, vandalism, fire, or similar causes, as well as corrosive drywall, but the process isn't always obvious or simple:

Only deduct losses that are greater than 10% of your adjusted gross income and exceed \$100 (line 38 of Form 1040). Fill out Form 4684, which involves complex calculations for the cost basis and fair market value. This form gives the number needed for line 20. Bottom line on line 20: If you've got extensive losses, it's best to consult a tax pro. I wouldn't do it myself, and I've been dealing with taxes for 40 years, says former IRS official Marti.

This article provides general information about tax laws and consequences, but shouldn't be relied upon as tax or legal advice applicable to particular transactions or circumstances. Consult a tax professional for such advice.

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