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DOUG'S NOTES

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HOW YOUR HOME AFFECTS YOUR TAXES!

Have you ever heard the saying there are three sure things in life: birth, death and taxes?

The good news is that tax rates favor homeowners. If you have bought or sold a house this year following are some facts you should know. **A tax professional should be consulted to make sure which ones apply for you.**

TAXABLE INCOME RANGE FOR 2004

Single Filer	Married/Joint Filer	Tax Rate
\$0 - \$7,150	\$0 - \$14,600	10%
\$7,150 - \$29,050	\$14,600 - \$58,101	15%
\$29,050 - \$70,350	\$58,101 - \$117,250	25%
\$70,350 - \$146,750	\$117,250 - \$178,650	28%
\$146,750 - \$319,100	\$178,650 -	
\$319,100	33%	
\$319,100 and up	\$319,100 and up	35%

NOTE: Don't overpay your taxes! You can order new tax information from the federal government every year for free.



Tax Information:

At this time there are six tax brackets, ranging from 10% to 35 % depending upon taxable income amount and filing status. Tax deductions resulting in the federal government contributing 10%, 15%, 25%, 28%, 33% or 35% toward monthly home mortgage interest

and property tax payments make home ownership more affordable for many families!

INTEREST

Tax Information:

Assuming that a residential mortgage isn't larger than the purchase price of the home, interest payments are fully deductible in most cases. Home ownership is a great tax shelter. If you own a second home as a vacation home mortgage interest is

also deductible (REFER TO THE VACATION HOMES SECTION). If you own a third home for personal purposes, the mortgage interest is considered "consumer loan" interest and is not deductible. However, interest on home equity loans (REFER TO "EQUITY LOANS" SECTION) is deductible, with some limitations.

NOTE: Consider carefully if you are planning to buy a home with a large amount of cash and if you will ever use it to finance the property.

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on deducting financing more than 90 days after closing is the acquisition loan balance plus \$100,000 unless the new financing is used to improve the property.

CAPTIOL GAINS ON A HOUSE

Tax Information:

When selling your principal residence you can make up to \$500,000 **tax free** if you file federal taxes jointly or \$250,000 if you file singly. To qualify for this the property must be owned and used as the principal residence for any two years of the prior five years.

If the Home is sold prior to the two-year use and ownership due to special circumstances (health, job loss, etc.) the exclusion is prorated. If the sell of the home gains more than the \$500,000 jointly or \$250,000 singly everything over that amount is taxed at current capital gains rate, determined by your tax bracket.

NOTE: Some states still tax on capital gains on home sales. Please check if your state is one of them and be sure to keep records of selling and improvement expenses. Once your home is sold these expenses can be used to determine your tax basis.

RENTALS

Tax Information

If your gross income is \$100,000 or less, not counting IRA contributions or taxable Social Security benefits, you can deduct up to \$25,000 in losses from rental real estate against income from other sources. If you own at least 10% of the property and actively participated in its management, such as choosing tenants and approved outlays for maintenance, some of your losses from rental real estate can still be deducted if your adjusted gross income is between \$100,000 and \$150,00 depending on the amount of the loss.

NOTE: If any rent losses were suspended in prior years they are fully deductible in the year the property is sold.

MOVING

Tax Information:

You may qualify for a moving expense deduction if your move is related to a new job or a job transfer. To qualify for this deduction the new home must be at least 50 miles more than the distance between the old home and the old job. The location of the new home doesn't matter. A homeowner or a renter may deduct the cost of moving household goods, direct cost of moving you and your family, and lodging during the move but no meals.

NOTE:

Realty Commissions, lawyers'

fees and other closing costs are not deductible as moving expenses but can be used to reduce capital gains by adding to the cost bases or reducing the adjusted sales price. All of this is covered in IRS Publication 530 "Tax Information for First Time Homeowners. Forms & Publications can be downloaded from <http://www.irs.gov>

VACATION HOMES

Tax information:

Separate tax rules apply to vacation homes depending on the owner's personal use days. If you use a residence more than 10% of the days that it is rented then it is considered a vacation home. Example: 15 days of the 150 it was rented.

Generally for a vacation home all mortgage interest and property taxes are deductible, either as rent expenses or additional itemized deductions. Other property expenses may be deductible including depreciation if there was rent income, but only up to the amount of the rent income (losses are not allowed).

NOTE: If your rental is not a vacation rental you

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may claim rent expense deductions other than interest and taxes, even if it results in a loss. When using a vacation home for personal use, deductions are determined by allocation of expenses, including interest and taxes, between the rental and personal use periods. If you rent your principal residence or vacation home for 14 days or less a year no taxes are due on that rental income.

POINTS

Tax Information:

Settlement charges for points are a deductible expense. Deductible points are up front charges for the use of money; one point equals 1% of the loan amount.

The buyer may deduct points paid by either the buyer or seller in the year of the purchase.

NOTE: When buying a home if you need financial assistance from the seller ask them to pay for, as many points as possible and this will increase your tax deduction. You may deduct points from the seller up to the points generally charged in your area for the year you buy the house and the rest of the points are covered over the length of the

Serving the Midlands of South Carolina since 1985, Shumate Appraisal Service has appraised more than one billion dollars of real estate transactions. During 2005, we will evaluate another sixty millions dollars worth of real estate. Our clients utilize our appraisal services for financing/refinancing of their home, new home construction, removal of Private Mortgage Insurance (PMI), settling estates, real estate tax reduction, and bankruptcies.

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DEPRECIATION

Tax Information:

Depreciation taken up to May 1997 on a principal residence is not taxable if it doesn't go over \$500,000 for married couple or \$250,000 for a single person.

Depreciation taken after May 1997 the amount of the gain equal to the depreciation taken is taxed at a maximum 25% rate. As that portion of the gain is not eligible for gain exclusion.

A rental or second home

property on which depreciation was taken up to or after May 1997, the gain equal to the depreciation taken is taxed at a maximum of 25% rate.

Northpoint



Joe Zokan, Owner

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The depreciation increases the amount gained upon the sale regardless if the home was a principal residence, rental property or second home.

NOTE: Home office depreciation changed after May 1997. Now all depreciation is subject to tax when the property is sold. When the property is sold if the home office has not been part of the residence for at least two out of the previous five years, the home office percentage of the gain will be considered fully taxable regardless of the \$250,000 or \$500,00 exclusion.

EQUITY LOANS

Tax Information:

A home equity loan is secured by a primary or second home, this includes a second mortgage or equity credit line. On equity loans up to \$100,000 the interest is fully deductible no matter how the proceeds are used. When added to other debt secured by the residence the equity loan cannot exceed the fair market value of the property.

NOTE: Because interest paid

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on credit cards or car loans, etc., is not deductible an equity loan makes sense to pay off these types of loans.

HOME OFFICE

Tax Information:

In 1999 the definition of home office was expanded. If you keep records, schedule appointments and carry on other business from your home office, some expenses such as utilities, insurance, repairs, cleaning and depreciation may qualify for a deduction, even if you work somewhere else. Any depreciation claimed after May, 1997 will be taxed at 25% if the residence is sold for a gain, regardless if the property has been converted to personal use.

NOTE: If you or your family uses your home office for non-business purposes, it cannot be claimed on your tax return.

LOCAL TAXES

Tax Information:

Personal property, real estate property taxes and state and local income taxes are fully deductible.

Note: Be sure to consult a tax professional to make sure which ones apply for you.

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If you know of anyone looking to buy or sell their home please call Doug @ 699-2212