

# Real estate news: Your checklist for possible 4th quarter tax advantages

By John Gibson and Ginny Kansas

OK, let's talk taxes. Boring right? Well, not if you can save some bucks and have a place to enjoy. As we wind down the year, it's time to reassess and, hopefully, lower your taxable income and/or increase your deductions.

The best planning is a symphony of coordination between your real estate broker, financial planner, accountant and attorney. Otherwise, the advantages you're seeking in one corner may be undone as one advisor may not be a specialist in the other areas. Definitely consult your accountant for your unique situation. With any of these suggestions there is always a cost/benefit analysis to see which opportunity presents the best legal, tax and financial planning course for the remainder of this year to offset any income or to strategize for next year's taxes.

Here's a recap from Sandy Block's "Mid-year Tax Moves" and "71 Ways to Cut Your Tax Bill" as it relates to real estate purchases, remodels and vacation rentals from Kiplinger.com.

**Make the most of the tax-free home sale profit.** Up to \$250,000 of home-sale profit is tax-free (\$500,000 if you are married and file a joint return) if you own and live in the house for two of the five years leading up to the sale. If you are bumping up on the limits, consider selling and buying a new home to start the tax-free clock ticking again. There is no limit on the number of times you can claim tax-free profit on the sale of a home.

**Second homes can offer a vacation from taxes.** If you're trying to figure whether you can afford a second home, remember that you'll get some help from the IRS. Mortgage interest on a loan to buy a second home is deductible just as it is for the mortgage on your principal residence. Interest on up to \$1.1 million of first- and second-home debt can be deducted. Property taxes

can be written off, too. Things get more complicated — and perhaps more lucrative — if you rent out the place part of the year to help cover the bills.

If you get a home-equity loan. Generally, interest on up to \$100,000 of debt secured by your primary home can be deducted, no matter what you use the money for (like a down payment for a vacation home). The exception for this is if you are subject to Alternative Minimum Tax.

**Watch the calendar at your vacation home.** If you hope to deduct losses attributable to renting the place during the year, be careful not to use the house too much yourself. As far as the IRS is concerned, "too much" is when personal use exceeds more than 14 days or more than 10 percent of

the number of days the home is rented. Time you spend doing maintenance or repairs does not count as personal use, but be careful about letting your family use the place for little or no rent — it will count as "personal use."

**Stay actively involved in rental real estate.** Generally, anti-tax shelter legislation prevents losses from real estate investments from being deducted against other kinds of income. But, if you are actively involved in a rental activity, you can deduct up to \$25,000 of such losses ... if your adjusted gross income is less than \$100,000. You don't have to mow grass and unclog toilets to qualify as actively involved; but you should make sure you're involved in setting rents and approving tenants and management firms.

**Use a tax-free 1031 exchange to acquire new property.** By trading one investment property for another, you avoid the capital gains taxes you'd incur if you sold the first property ... leaving you with more to invest in the

second.

**Use a Roth IRA to save for your first home.** A Roth IRA can be a powerful tool when you're saving for your first home. All contributions can come out of a Roth at any time, tax- and penalty-free. And, after the account has been opened for five years,



up to \$10,000 of earnings can be withdrawn tax- and penalty-free for the purchase of your first home. Say \$5,000 goes into a Roth each year for five years for a total contribution of \$25,000. Assuming the account earns an average of 8 percent a year, at the end of five years, the Roth would hold about \$31,680 — all of which could be withdrawn tax- and penalty-free for a down payment.

**Use your traditional IRA to purchase investment property.** Don't cash out the retirement account and pay taxes and possible penalties, own the property in your retirement account instead. Also, don't overlook using an IRA for a down payment on a second or rental/investment home as loans are hard to come by for non-owner occupied investment homes.

**Think green.** A separate tax credit of 30 percent of what is spent on items such as solar electric systems, solar hot water heaters, geothermal heat pumps, and wind turbines, including labor costs, is available. There is

no cap on this tax credit, which runs through 2016. A bonus — Midstate Electric also offers rebates on energy efficient items.

**Use an installment sale of real estate to defer a tax bill.** If the buyer pays you in installments, the IRS will let you pay the tax bill on your profit in install-

ments, too. You can elect to be taxed only on the capital gain and interest that you receive each year.

could make you a bundle — tax-free — while getting you out of town when tourists overrun the place. A special provision in the law lets you rent a home for up to 14 days a year without having to report a dime of the money you receive as income.

**Be a packrat with paperwork.**

Some costs associated with buying a new home affect your "tax basis," the amount from which you'll figure your profit when you sell; others can be deducted in the year of the purchase, including any points you pay (or the seller pays for you) to get a mortgage and any property taxes paid by the seller in advance for time you actually own the home.

**Check the calendar before you sell.** You must own an investment for more than one year for profit to qualify as a long-term gain and enjoy preferential tax rates. The "holding period" starts on the day after you close on the property and ends on the day you sell.

Keep careful records of the cost of medically necessary improvements. To the extent that such costs — for adding a wheelchair ramp, for example, lowering counters or widening a doorway or installing hand controls or a stair climber or elevator — exceed any added value to your home or vehicle, that amount can be included in your deductible medical expenses.

OK, we're done. Hope one of these ideas will help keep bucks in your jeans in the year ahead.

**Convert a vacation home to your principal residence.** Until 2009, there was a sweet tax break for folks who sold their homes, claimed tax-free profit and then moved into a vacation property. After they lived in that home for two years, they could sell and claim tax-free profit again — including appreciation from the days the place was a vacation home. You can still make out, but you'll have to allocate the time you used the place as a vacation home versus the total time you've owned the home to determine how much would be taxable.

**Take advantage of tax-free rental income.** You may not think of yourself as a landlord, but if you live in an area that hosts an event that draws a crowd (Pacific Crest Weekend Sports Festival, say, or Sunriver Music Festival or one of the tennis or golf tournaments), renting out your home temporarily

*John Gibson and Ginny Kansas-Mezzaros are principal brokers at Gibson Realty Inc. with offices in the Sunriver Business Park and Depoe Bay. Contact Ginny at 541-977-2710, ginny.m.kansas@gmail.com and John at 541.593-5000 or johngibsonpc@aol.com*