

VALLEY BAY MORTGAGE

MARCH 2004

NEWSLETTER

It's spring, and tax season is quickly approaching! As a homeowner, you already know that mortgage interest is generally considered tax-deductible. There are many ways to capitalize on the tax-favorability of your real estate; here are just a few examples.

Mortgage Interest Deductions

The most basic deduction for a homeowner is the mortgage interest deduction. By now, your mortgage lender should have sent you a statement showing how much you mortgage interest you paid in 2003; if you haven't, be sure to request it immediately.

The mortgage interest deduction applies to interest you paid on a mortgage used to buy, build or improve your home ("home acquisition debt"). Interest paid on equity over the home acquisition debt ("home equity debt") is also generally deductible up to \$100,000 (\$50,000 for tax filers who are married filing separately). For example, if you are married and purchased your home for \$500,000, and you refinanced this year for \$600,000, you will be able to deduct all your mortgage interest. This would be true even if the \$100,000 cash out you took was to consolidate non-real estate debts such as credit cards, student loans, and car payments.



Interestingly, the mortgage interest deduction also includes prepayment penalties that you pay. Borrowers often take loans with prepayment penalties in order to qualify. However, the prepayment penalty can be steep; 2-3% of the loan amount is not uncommon. To ease the pain of the prepayment penalty, however, taxpayers can generally deduct the entire amount of the prepayment penalty in the year paid.

Refinance and Purchase Cost Deductions

When refinancing or purchasing a home, taxpayers are eligible to deduct all or part of the "points" paid on the loan. "Points" may also be called loan origination fees, maximum loan charges, loan discount or discount points. Note that points do not include fees charged for services such as appraisals, notary fees and processing/underwriting fees.

In a purchase transaction, points are fully deductible in the year paid. For a refinance transaction, however, points are deductible over the life of the loan. If you refinanced more than once last year – as many homeowners did – you can probably deduct the full cost of points you paid on the loans you closed.

Profits from Selling Your Home



When selling your primary residence, you can exclude gains up to \$500,000 (\$250,000 for single filers or married filing separately) from your income as long as you have lived in the property as your primary residence for 2 of the last 5 years. The 2 years do not need to be in order; if you lived in the home for all of 2001 and 2003, but not 2002, you would still qualify.

This exclusion may be available even if you do not meet the 2-year rule. If the sale was due to a change in place of employment (at least 50 miles from your last place of employment), disease, illness, injury, or unforeseen circumstances, you may be able to take a proportional amount of the exclusion. What constitutes acceptable "unforeseen circumstances," is a murky area, and may include situations such as divorce, unexpected pregnancy or multiple births, or a tragedy occurring in the home.

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**This Month's Bay Valley Mortgage Newsletter:
Tax Tips for Homeowners**



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Call or Email for More Information

If you are thinking about pulling equity from your home or buying a new home, please call or email us. We'll be happy to provide you with free, detailed quotes that will help you shop for the best rates and programs.

We're more than just mortgage brokers – we're committed to helping improve your family's financial outlook. Give us a call.

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