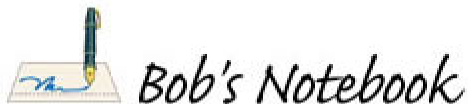

YEAR-END REAL ESTATE TAX SAVINGS REVEALED

Good news for those relocating or refinancing

As 2004 draws to a very successful close for most homeowners, real estate investors and realty sales agents, it's time to plan for year-end real estate tax savings strategies. Even if you can use only one or two of these techniques to cut your 2004 income taxes, making your decision now can save hundreds, or even thousands, of tax dollars.

Here are the "top10" year-end real estate tax choices that can reduce your 2004 income-tax bill:

1—SELL YOUR PRINCIPAL RESIDENCE BY YEAR-END. As most homeowners know, they can claim up to $250,000 principal residence sale tax-free profits. A qualified married couple filing jointly in the year of home sale can claim up to $500,000 tax-exempt profits.

To qualify, Internal Revenue Code 121 requires owning and occupying your principal residence at least two of the five years before its sale. However, if you acquired your home in an Internal Revenue Code 1031 tax-deferred exchange and later converted it into your principal residence, for sales after Oct. 22, 2004, you must have owned it at least five years (but only two years of occupancy is required).

2—BUY YOUR PRINCIPAL RESIDENCE BY YEAR-END. This is the best season to be a home buyer. If you can complete the title transfer by Dec. 31, 2004, you will be entitled to deduct your home acquisition mortgage loan fee as itemized interest on your 2004 income-tax return.

Each one-point loan fee is 1 percent of the amount borrowed. Any 2004 pro-rated property taxes and mortgage interest are also deductible.

3—REFINANCE YOUR HOME MORTGAGE; DEDUCT ANY UNDEDUCTED LOAN FEE. If you already own your home, completing a mortgage refinance by year-end might save you 2004 tax dollars. The reason is you can deduct any undeducted loan fee from a prior mortgage refinance

when you refinance again.

Thanks to declining mortgage interest rates, it is not unusual for homeowners to have refinanced several times.

However, smart homeowners avoid paying loan fees on a mortgage refinance by obtaining a so-called "no cost" home mortgage. Since loan fees paid for a refinanced mortgage are tax-deductible only over the life of the mortgage, the small annual loan fee deduction usually won't save many tax dollars.

4—USE A HOME EQUITY LOAN TO PAY OFF NON-DEDUCTIBLE LOANS SUCH AS CREDIT CARDS AND CAR LOANS, OR FOR BUSINESS PURPOSES. Because interest paid on a home equity loan up to $100,000 secured by your home is tax deductible, smart homeowners obtain a home equity loan credit line and use the proceeds to pay off non-deductible loans, such as auto loans, credit cards and student loans.

Most banks and other home equity lenders offer these loans, which are really second mortgages secured by your home, at the prime rate or lower.

If the purpose of your home equity loan is for business purposes, such as to buy or expand your business, there is no limit to the interest deductibility on your business tax returns.

5—PREPAY YOUR JANUARY 2005 MORTGAGE PAYMENT IN 2004. One of my favorite year-end tax deductions is to prepay my January 2005 mortgage payment well in advance of Dec. 31 so my lender includes it on my IRS form 1098 for 2004. In my case, this one-month interest deduction tax savings is several hundred dollars.

6—PREPAY YOUR 2005 PROPERTY TAXES IN 2004. Another personal favorite year-end tax deduction is to prepay my 2005 property taxes by Dec. 31, 2004.

This property tax prepayment is not allowed in all states, but it won't hurt to inquire by a phone call to your local property tax collector's office if you are eligible. The income-tax-deduction savings for prepaid property taxes can be substantial.

7—IF YOU OR YOUR SPOUSE CHANGED JOB LOCATION AND YOUR PERSONAL RESIDENCE IN 2004, REMEMBER TO DEDUCT YOUR MOVING EXPENSES. Whether you are a renter or a homeowner, if you or your spouse changed both your job location and your principal residence in 2004, you might be eligible to deduct your moving expenses. This deduction is available even if you don't itemize your other tax deductions.

To qualify, you or your spouse must have a new job site that is at least 50 miles further away from your old home than was your old job location. Distance from your new home to your new job location doesn't matter.

For example, suppose it was six miles from your old home to your old job site. To qualify for the moving expense tax deduction, in this illustration your new job must be located at least 56 miles

(six plus 50) from your old home.

It doesn't matter if you changed employers, continued working for the same employer, or became self-employed. To prevent abuse of this deduction, there are minimum employment times required in the vicinity of your new location.

8—DELAY TAXABLE HOME SALES UNTIL NEXT YEAR. If your principal residence sale capital gain exceeds the $250,000 or $500,000 tax exemptions, it will usually be best to delay your home sale until 2005. The reason is you will then have until April 2006 to pay your capital gains tax on the home sale profit exceeding your exemption.

9—DEDUCT ANY UNINSURED CASUALTY OR THEFT LOSS. 2004 was an especially devastating year for real estate losses, especially due to hurricanes. As property owners become reluctant to file insurance claims, fearing insurance policy cancellations or premium increases, homeowners and business owners will be increasing their uninsured casualty loss tax deductions.

To qualify, the casualty loss must be caused by a "sudden and unexpected" loss not paid by insurance, such as fire, flood, hurricane, mudslide, accident, theft, or other qualifying event.

However, only personal casualty losses over $100, which exceed 10 percent of your 2004 adjusted gross income, will qualify.

For example, if you paid $7,500 to repair your home after a wind loss, and your adjusted gross income is $50,000, then $2,400 of your casualty loss is deductible ($7,500 minus $5,000 minus $100).

But there are no limits for business casualty losses claimed on your business tax returns.

10—MAKE A TAX-DEFERRED EXCHANGE TO DELAY TAX ON A BUSINESS OR INVESTMENT PROPERTY SALE. If you want to sell a business or investment property, the only way to avoid capital gains tax is to make an Internal Revenue Code 1031 tax-deferred exchange. To qualify, you must acquire one or more "like kind" properties of equal or greater cost and equity.

In other words, if you receive any unlike kind "boot," such as cash or net mortgage relief, you will owe capital gains tax on that amount.

Internal Revenue Code 1031(a)(3) approves Starker delayed exchanges. That means you can sell your investment or business property, have the sales proceeds held by a qualified third-party intermediary or accommodator, and then use that cash to acquire qualifying property of equal or greater cost and equity. But you have only 45 days to designate the replacement property and up to 180 days to complete the acquisition.

CONCLUSION: There are many year-end tax techniques to save on your 2004 income taxes. Please consult your tax adviser now for full details and to maximize your income-tax savings.