

Home, sweet home: a wealth of tax deductions

A great source of tax deductions is as close as home. In fact, your home can provide you with a lifetime of tax advantages, according to the Michigan Association of Certified Public Accountants.

The first tax savings available to you as a homeowner is the deduction you can take for points you pay to the mortgage lender.

Points are considered prepaid interest and are fully deductible the year you buy, providing that the house is your principal residence and the points are in line with what is normally paid on similar loans in your area.

Points on refinancings must be prorated over the life of the new mortgage, the Internal Revenue Service has ruled.

If your closing costs require you to reimburse the seller for real estate

taxes he or she paid in advance, you may deduct those amounts as if you paid the bills directly.

Other closing costs generally are not deductible, but are added to the purchase price to arrive at your home's basis — the official cost of the home for tax purposes. These costs include appraisal fees, attorney fees, recording and title examination fee, surveys, title search and title insurance, and utility connection charges.

ONE OF THE biggest tax advantages of home ownership is the deduction you can take for interest paid on your mortgage loan.

In the early years of your mortgage, nearly all of the monthly payment is designated as interest. As a result, your tax deduction is sure to be substantial for the first five years.

Keep in mind, too, that you can also claim a deduction for local property taxes you pay each year.

Taking advantage of these basic tax benefits — the deductions for mortgage interest and property taxes — is quite simple. If your mortgage is held by a financial institution, you will should receive a statement by Jan. 31 that will show exactly how much you paid the previous year.

If you don't pay your taxes through your lender, you can refer to copies of paid tax bills and canceled checks for the tax information you need.

Home improvement projects can also translate into tax savings. Projects are divided into two types — repairs and improvements — for tax purposes.

AN IMPROVEMENT is anything that adds value to your home, pro-

longs its life or adapts it to new uses. Adding a new bathroom or bedroom, putting in new plumbing or wiring, and paving a driveway are improvements.

Repairs, on the other hand, merely maintain the home's condition. Examples of repair include repainting the inside or outside of the structure, fixing gutters, mending leaks and replacing broken window panes.

The distinction between the two is critical for tax purposes.

While you may not deduct what you pay for repairs or improvements, your costs for improvements can be added to your home's basis. This increases the tax value of your home and will reduce your profit when you sell.

Be sure you document all home improvement costs no matter how

small. By the time you sell, those items may add up to a significant amount.

There are other ways to reduce, postpone or even eliminate the tax you must pay on the gain realized from selling your home.

PROFIT ON sale is based on your home's adjusted basis and the price at which it is sold — the sales price less the costs associated with selling. In particular, you may subtract from your house's selling price the cost of repairs completed during the 90 days prior to signing a contract, providing such repairs are paid for within 30 days after the sale of the residence.

Fix-up costs can include papering, painting or repairing leaky faucets.

You may also subtract real estate commissions, advertising costs, legal fees and other costs you incur to sell

your home. By subtracting these costs from your sale price, you reduce the profit realized as well as the tax due on that profit.

What's more, you may be able to postpone paying any tax on the gain from selling your home if you buy and occupy a new principal residence within two years before or after the sale of your own home. The cost of your new home must equal at least the adjusted sales price of your old home.

As you keep trading up, you can keep postponing the tax on your gain.

FINALLY, TAXPAYERS who are 55 or older are allowed a special one-time tax break that allows them to exclude from gain up to \$125,000 of profit from the sale of their principal residence, provided they meet certain criteria.

Alcoholism creeps into condo board operation

I am an officer of our homeowner association. The president, while generally effective when he is sober, often comes to the meetings intoxicated. Alcohol permeates his breath, and he is sometimes belligerent with other members of the board. We like the fact that he has donated his time and has good business sense when he is sober, but how do we confront him and his alcoholism?

association and not discharging his responsibilities, you may wish to approach him to request that he resign the presidency and perhaps his seat on the board because of his obvious problem. You might wish him to consider, pending his resignation, attending Alcoholics Anonymous or attending counseling in an effort to bring the matter under control. Perhaps then that will be an incentive to him to get things under control and he can still be a worthwhile contributor as far as the board is concerned. It is obviously a delicate task, but



condo queries

Robert M. Meisner

you as directors have a responsibility to do something about it.

The delinquency problem at our condominium is getting out of hand. But the board has taken a hands-off

attitude in terms of seeking to start foreclosure or other court proceedings because it doesn't want to spend the money and is hoping that the co-owners will come around. Meanwhile the rest of us are paying our assessments in a timely manner while others are getting away with not paying. What can be done to impress upon the board that it has a responsibility here?

There are booklets that are available that discuss the responsibilities of the board of directors in regard to condominium operation. One of the

basic tenets in the operation of a condominium is that the rules, regulations and restrictions include the obligations of co-owners to pay assessments must be enforced strictly and uniformly by the board of directors.

Failing to pursue co-owners because of the purported excuses including the fact that it may cost money is no excuse, particularly in light of the fact that the condominium act and most condominium by-laws provide that the reasonable attorney fees incurred by the associa-

tion in pursuing the collection of assessments is recoverable by the association from the co-owner in question. There is no excuse for the board not pursuing co-owners uniformly and consistently.

It is personally liable for its malfeasance in not insuring that the rules and regulations are enforced. You might be advised to remind them of their responsibilities and perhaps provide them with a copy of this column.

Robert M. Meisner is a Birmingham attorney.

MAKE THE MOVE NOW!!

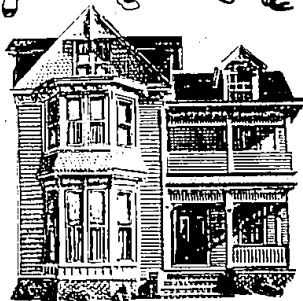
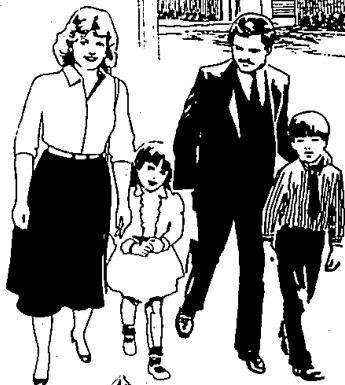
THERE'S NO BETTER TIME TO BUY

If you've been thinking about moving from your current residence to the house of your dreams or from an apartment to a starter home, this is the time to do it.

- The selection is excellent.
- Low interest rates are available.
- There are many financing options available.



Go ahead, make the move. Now is the right time to buy a home.



NOW is the right time to Buy a Home!

Purchasing a home has always been a wise decision, but current market conditions are making it even more attractive to buy now.

EXCELLENT FINANCING IS AVAILABLE NOW

Interest rates are lower, and mortgage lenders are offering a wide variety of financing options. Low interest rates mean you can get more for your money.

- 30-year fixed mortgages are still available as well as many other financing alternatives.
- First time buyers are encouraged to purchase now through financing packages offering small down payments.

YOUR HOME IS YOUR BEST INVESTMENT

Purchasing a home is the best way to build a solid financial foundation. A home not only provides you with warmth and comfort, it also serves as a secure investment.

- Today, homes in the area continue to be a wise investment.
- Equity in your home can be used as collateral, thus providing you with additional financial security.
- Home ownership provides you with a sizable tax advantage because interest paid on mortgages is fully deductible. Property taxes can also be deducted.

This message brought to you by the Classified Advertising Department of...

Observer & Eccentric
CLASSIFIED ADVERTISING

644-1070 Oakland County 591-0900 Wayne County 852-3222 Rochester/Rochester Hills
DEADLINES: 3 P.M. TUESDAY FOR THURSDAY EDITION'S P.M. FRIDAY FOR MONDAY EDITION