TaxBrief

Keeping you informed

Homeownership and Taxes

What buyers and sellers need to know before making a move

Buying or selling a home is more than a personal milestone; it's a financial decision with tax implications that can affect your return for years to come. Whether you're stepping into the market for the first time or preparing to sell a long-time residence, planning ahead can make a difference. Here's what you should know before you sign the papers.

Tax considerations for homebuyers

Points and closing costs

Points, often called loan origination fees or discount points, are prepaid interest used to reduce your mortgage rate. Points paid at closing to buy a main home may be deductible in the year paid, but for a second home, they must be deducted over the life of the loan. Be sure to keep your HUD-1 or closing disclosure, along with records of loan fees, title charges and transfer taxes.

Mortgage interest

If you itemize, you can generally deduct interest paid on up to $750,000 of mortgage debt ($375,000 if married filing separately) for loans used to buy, build or improve a main or second home. Loans from relatives or unsecured personal loans don't qualify.

Property taxes

If you itemize, you may be able to deduct up to $40,000 ($20,000 if married filing separately) of combined state and local taxes, which include property taxes. Depending on your state of residency, some states also offer their own deductions or credits for homeowners. Our office will assist in checking those benefits before filing.

Mortgage interest credit

If your state or local housing authority issued you a mortgage credit certificate (MCC) when you took out your mortgage, you may be eligible for the mortgage interest credit. This credit is claimed annually and can directly reduce your tax liability, which is especially helpful for lower-or moderate-income buyers.

Energy improvements

If you install qualifying energy-efficient improvements, like windows, insulation or heat pumps, you may be eligible for a 30% tax credit under the energy efficient home improvement credit. Solar panels and other clean energy systems may qualify for a separate 30% credit under the residential clean energy credit. Both credits are currently set to expire after 2025, so homeowners should plan ahead if considering major upgrades. Each credit has its own rules and limits; make sure to keep receipts and product certifications.

Track your home's basis from the start

Your "basis" is the amount you've invested in the home, starting with the purchase price. Over time, that amount increases with qualifying improvements and decreases with items like insurance reimbursements or depreciation (if used for business or rental). From day one, it's important to keep a folder, whether physical or digital, for:

- Purchase and loan documents
- Closing statements (HUD-1 or closing disclosure)
- Receipts for renovations or major upgrades
- Any property tax or insurance settlements

Keeping good records helps ensure we calculate your gain accurately when you sell. If some or all of the gain is taxable, these records can also help reduce how much tax you owe.

Tax considerations for home sellers

Home sale gain exclusion

If you lived in the home as your main residence for any two of the past five years (they don't need to be consecutive), you may be able to exclude up to $250,000 of gain from income, or up to $500,000 if married filing jointly. Note that only one exclusion can be claimed every two years.

A partial exclusion is available if you sell due to a job change, health reasons or unforeseen circumstances.

The exclusion rules can get more complex depending on your circumstances. For example, if you owned the home jointly with someone other than a spouse, used part of the property for business, or lived away for a period of time, other rules may apply. Before you sell, let's review your situation to ensure we account for everything.

Rental or business use

If you used any part of your home as a rental or home office after May 6, 1997, any depreciation claimed must be recaptured as income. Also, any nonqualified use after 2008 (such as renting out the entire home) may reduce the excludable portion of your gain.

Watch for Form 1099-S

Form 1099-S is a tax form used to report the sale or exchange of real estate. If you receive Form 1099-S from the title company or settlement agent, the IRS will also get a copy. Even if the sale qualifies for full gain exclusion, we may still need to report it on your return. If you don't receive this form and the entire gain is excluded, you likely won't need to report the sale.

Still repaying the first-time homebuyer credit?

The credit is no longer available, but if you claimed the original first-time homebuyer credit in 2008, you may still be making annual repayments. Selling the home or converting it to rental or vacation use may trigger an accelerated repayment of the balance. We can help confirm what's still owed and how to report it.

Basis and documentation

To determine your gain or loss upon sale, we'll need a full record of your home's adjusted basis. This includes:

- Purchase price
- Capital improvements (e.g., new roof, windows, additions)
- Selling costs (e.g., commissions, legal fees)

Routine repairs don't increase basis, but permanent improvements do.

Timing matters

Selling just before meeting the two-year residency requirement could cost you the exclusion. Renting the home shortly before or after the sale may also limit how much gain you can exclude. On the buying side, if you close before Dec. 31, you may be able to deduct mortgage interest and property taxes paid at closing on that year's return.

We can help make your move tax-smart

Homeownership remains one of the most effective ways to build wealth, but it comes with tax consequences that are easy to overlook. Whether you're buying, selling or doing both in the same year, a little planning can go a long way.

Before you commit, let's talk. We can help:

- Estimate your potential gain and exclusion
- Track your home's adjusted basis
- Allocate rental or business use correctly
- Weigh the timing of your sale or purchase
- Coordinate federal and state-level homeownership tax rules

We'll help ensure your next move makes sense on paper and in your wallet.