Taxes are something we all face every year. Homeownership is made affordable for many families because of how Uncle Sam's tax deductions result in the federal government contributing from 10% to 39.6% (depending on your tax bracket) toward monthly home mortgage interest and property tax payments.

Here are some basic home-related tax facts you should be aware of. Be sure to consult a tax professional for complete information applicable to your specific situation.

INTEREST

TAX FACTS: Interest payments on your original mortgage — assuming the mortgage isn't larger than the home's purchase price and improvement costs — are fully deductible for most homeowners. (There is an overall limit on "home acquisition" mortgage debt for purposes of deducting interest on up to two homes.) That's a key reason why homeownership is a superb tax shelter. Mortgage interest on a second home is also deductible, as explained in the "VACATION HOMES" section. If you own a third home for personal purposes, the mortgage interest is not deductible. Interest on home equity loans (see "EQUITY LOANS" section) is deductible with some limitations.

HELPFUL HINT: For mortgages taken out more than 90 days after a home purchase, your interest deduction is usually limited to the amount of the original (acquisition) mortgage plus $100,000. However, if you use some of the new mortgage to improve your home, you can add that amount to the deduction limit.

GAINS

TAX FACTS: Taxpayers who sell their principal residence can pocket — tax-free — as much as $500,000 in profit if they file federal taxes jointly, or $250,000 if they file singly. The property must have been owned and used as their principal residence for any two of the prior five years. Homeowners can shelter the profits on the sale of a home as often as once every two years. If the two-year use and ownership tests are not met, but the home is sold because of special circumstances (i.e., health problem, job loss, etc.), the exclusion is prorated. Otherwise, gains above $500,000 or $250,000 are taxed at current capital gains rates plus may be subject to an additional 3.8% surtax, depending on income.

Note: In effect since January 1, 2013, the Net Investment Income Tax (NIIT) applies a 3.8% surtax to certain types of net investment income of individuals, estates and trusts that have modified adjusted gross income (MAGI) exceeding certain thresholds. For individuals, the MAGI threshold for a single filer or a person filing as head of household (with qualifying person) is $200,000; for married filing jointly or for a qualifying widow(er) with dependent child, $250,000; for married filing separately, $125,000.

The 3.8% tax is applied to whichever amount is less — your net investment income or the amount your income exceeds the applicable threshold. For example, if a couple's net investment income is $200,000 while their MAGI is $300,000 ($50,000 above the applicable threshold), the 3.8% tax would be applied to the $50,000 in excess of the threshold.

For home sellers with MAGI above the applicable threshold, the 3.8% tax *may* be applied to your home-sale gains that exceed your home-sale gain exclusion ($500,000 for married joint filers, $250,000 for single filers). If your MAGI amount above the threshold is less than your un-excluded home-sale gains plus net income from certain other investments, you would only owe the 3.8% tax on the excessive MAGI amount (NIIT applies to the lesser of extra income or extra gains). You can still take either $250,000 or $500,000 in profits from your home sale tax-free.

HELPFUL HINT: Income from rental property, gains from the sale of a second home, and gains from the sale of an investment property would be considered part of net investment income (and possibly subject to the NIIT) to the extent that gains are not otherwise offset by capital losses. Browse to *www.TinyURL.com/a9pkfrj* for further details.

MORTGAGE INSURANCE

TAX FACTS: In 2013, the deduction for payments of mortgage insurance premiums — which had expired in 2011 — was extended to apply to tax year 2013 and retroactively to tax year 2012. The full deduction is available to taxpayers with Adjusted Gross Income (AGI) not greater than $100,000 or $50,000 for married filing separately. Over those incomes, the deduction is phased out and disappears completely for AGIs of $110,000 or $55,000 (married filing separately). In order to take the deduction, you must itemize deductions on your tax return — see instructions on Schedule A (Form 1040) or IRS Publication 936 for details.

HELPFUL HINT: If you qualified in 2012 but didn't take the deduction, you may want to file an amended return. To find the amount of qualified mortgage insurance you paid (if any), see Form 1098, Box 4 from your lender.

RENTALS

TAX FACTS: If you have an adjusted gross income of $100,000 or less (not counting any loss from "passive activities," several adjustments to adjusted gross income or taxable Social Security benefits), you can deduct up to $25,000 in losses from rental real estate against income from other sources. This is an allowable deduction if you owned at least 10% of the property and "actively participated" in its management. (If you chose the tenants and approved outlays for maintenance, for example, that's considered "active" participation.) If your adjusted gross income is between $100,000 and $150,000, you can still deduct some or all of your losses from rental real estate, depending on the amount of the loss.

HELPFUL HINT: Don't forget, if any rent losses were "suspended" in prior years, they are fully deductible in the year the property is sold.

FORGIVEN MORTGAGE DEBT

TAX FACTS: The Mortgage Forgiveness Debt Relief Act of 2007 was extended through tax year 2013 allowing those who qualify to exclude from taxation debt that was forgiven by a lender through a short sale, foreclosure, deed in lieu of foreclosure, or debt restructuring — within limits. You must be able to prove that you were financially insolvent when you lost, left or sold your home. Otherwise, forgiven debt is normally taxable as income.

HELPFUL HINT: Other restrictions apply; consult a knowledgeable tax professional for details, or see IRS Pub. 4681 "Canceled Debts, Foreclosures, Repossessions and Abandonments."

POINTS

TAX FACTS: For home buyers, deductible expenses include settlement charges for points. Deductible points are upfront charges for the use of money (not services). One point equals 1% of the loan amount. Points paid by either the buyer or seller are deductible by the buyer in the year of the home purchase. Although some closing service fees are quoted as "points," they are not deductible.

If you paid discount points when refinancing your home, be aware that you may not deduct them in full during the tax-year of the refinancing. Instead, you must prorate the deduction over the life of the loan. For example, $3,000 in points paid for a 15-year-term refinanced loan would equal a deduction of $200 ($3,000 ÷ 15 = $200) per year — unless the home is sold before the end of the loan term or refinanced with another lender, at which time all remaining points can be deducted on that year's return.

HELPFUL HINT: Consider having sellers pay for as many points as possible to increase your tax deduction.

EQUITY LOANS

TAX FACTS: Unlike other types of loans, interest paid on home equity loans (including second mortgages, equity credit lines or some refinancings) is fully deductible up to $100,000 — regardless of how you use the loan proceeds. If you use some or all of the proceeds for home improvements, that amount can be added to the $100,000 limit. (Be sure to document costs for improvements to your home.) The above limits apply so long as all debt secured by the residence does not exceed the fair market value of the home.

HELPFUL HINT: Because interest paid on credit cards and other "consumer" loans, such as car loans, is not deductible, it makes tax sense for some homeowners to pay off this kind of debt using a home equity credit line or loan. Alternative Minimum Tax rules may apply, however. (Note: Some state laws restrict home equity loans. Consult your tax advisor to learn more.)

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