SUPER SAVERS

Some Energy Tax Credits Are Still Available

An Old Credit...
If you installed in your principal residence a geothermal heat pump, solar panels or water heaters, small wind energy systems, or fuel cells during 2011, you can deduct 30% of the cost on your tax return. Valid for new construction or existing homes, these energy credits continue with no cap through 2016. Certain energy-efficiency restrictions apply. Known as Tax Code Section 25D, this energy tax credit can be filed using Form 5695.

A New Credit...
If you missed out on making energy-efficient improvements in 2009 and 2010, but instead waited until 2011, you may qualify for up to 10% of their cost in tax credits.

The maximum credit in 2011 is $500, and only $200 of the credit can be from installing new windows. **Note:** If you've already claimed $500 or more in energy-efficiency tax credits from 2006 through 2010, you may not claim additional tax credits. Improvements must meet energy-efficiency criteria. Also known as Tax Code Section 25C, use Form 5695 to claim this credit.

If you qualify for energy tax credits, you may claim them regardless whether you itemize deductions. Find more information online at the ENERGY STAR website: *www.TinyURL.com/m8luk4.*

MOVING EXPENSES

A Break For Non-Itemizers

Whether or not you itemize your tax return, you can deduct qualified job-related moving expenses. What's deductible? Expenses you paid for packing and moving household goods, storage and certain travel costs for you and your family, even shipping a car or pets—within limits (as always) and only up to the amount not reimbursed by your employer.

Be aware, one of the rules for taking moving-expense deductions is that your new workplace must be at least 50 miles farther from your old home than the distance between your old workplace and your old home. For example: If the old workplace was 15 miles from your old home, your new workplace must be at least 65 miles from your old home (50 + 15 = 65).

For complete information, see IRS Publication 521, *Moving Expenses.*

Information Counts!

Accurate, timely information adds up to savings when making decisions about real estate. Feel free to share this newsletter with your friends and neighbors. And thanks in advance for your referrals!

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SPECIAL TAX ISSUE

TAME YOUR TAXES

Homeowner Tax Breaks Help Preserve Your Wealth

In these challenging economic times, every penny counts. As a homeowner, you'll want to ensure you take all the tax deductions you're entitled to on your 2011 return—which could keep a lot of money in your own pocket.

Whether you are a current or former homeowner, you'll find this Special Tax Issue of our newsletter offers valuable information you can use to minimize your taxes. And if you're thinking about buying, you'll get a preview of the kinds of tax breaks you could see next year as a homeowner.

Unfortunately, some Americans lost their homes last year due to foreclosure, while others were forced to sell at a loss in order to avoid foreclosure. If you are among them—or know someone who is—completing a 2011 return could be more complicated than usual, but you may still qualify for some money-saving tax breaks.

Although we cannot provide comprehensive information for every homeowner's unique situation, this newsletter outlines many of the major home-related federal tax rules that you'll need to know when completing your 2011 return.

Be sure to consult a tax professional about any questions you have or call the Internal Revenue Service directly using their toll-free tax-assistance line: (800) 829-1040. (Calling early in the tax season will reduce your wait time.) You can also find a wealth of information online—including publications, forms and worksheets—at *www.IRS.gov.*

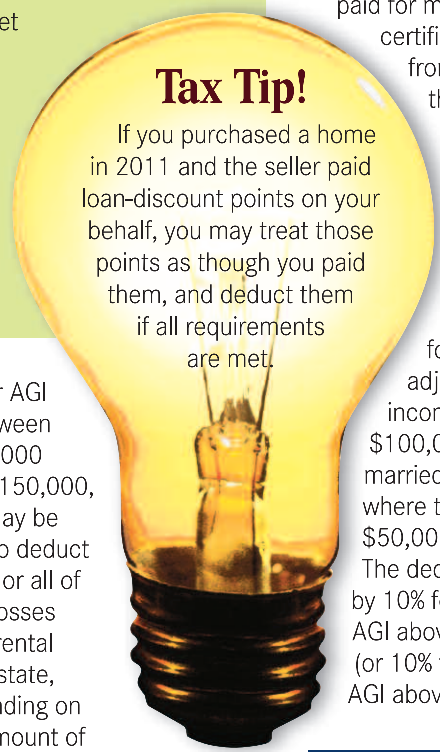
Happy deductions!

THE BIG PICTURE

Common Homeowner Deductions

Many owners qualify to take at least some of the deductions below, allowing them to itemize their returns and save more on taxes than by taking the standard deduction.

- **Mortgage interest** for your primary residence or a secondary residence, within certain limits. See IRS Publication 936, *Home Mortgage Interest Deduction*.
- **Property taxes.** See IRS Publication 17, *Your Federal Income Tax*.
- **Interest** on up to $100,000 of home-equity loans or lines of credit, regardless how you use the money (except under the Alternative Minimum Tax). You can also deduct interest on equity-backed loan amounts above $100,000 if you use the money to improve your home. (These limits apply so long as all debt secured by the residence does not exceed the home's fair market value.) See IRS Publication 936.
- **Loan-discount points** may be deducted either in the year they were paid or on a prorated basis over the life of the loan, providing a number of rules are met. This gets complicated—be sure to consult Publication 936 or a tax specialist for all the particulars.



RENTAL HOMES

Tax Facts For Investors

Whether you've purchased a home as an investment or you've moved on and rented out your old home, you can reduce your taxable rental income by deducting rental-related expenses including interest, taxes, casualty losses, maintenance, utilities, insurance and depreciation—at least up to the income from the property.

What you might not know is that **you may be able to deduct up to $25,000 in losses from your rental real estate against income from other sources.** Do you qualify?

- Your adjusted gross income (AGI) must be $100,000 or less (not counting any loss from "passive activities") and after allowable adjustments to AGI or taxable Social Security benefits. If your AGI is between $100,000 and $150,000, you may be able to deduct some or all of your losses from rental real estate, depending on the amount of the loss.
- You must own at least 10% of the property and "actively participate" in its management. (If you chose the tenants and approved outlays for maintenance, for example, that's considered "active" participation.)
- If losses from rental property were suspended in prior years, they are fully deductible in the year the property is sold.

Want to learn more? Check out IRS Publication 527, *Residential Rental Property (Including Rental of Vacation Homes)*.

ONE MORE YEAR

Deduction For Mortgage Insurance Extended Through 2011

The deduction for mortgage insurance premiums has been extended to include tax year 2011. The law allows full deductibility of premiums paid for mortgage insurance certificates issued from January 1, 2007 through December 31, 2011, with these rules:

- Taxpayers must itemize their returns.
- Premiums are fully deductible for taxpayers with adjusted gross income (AGI) up to $100,000 (except married filing separately where the limit is AGI $50,000 per person). The deduction is reduced by 10% for each $1,000 AGI above $100,000 (or 10% for each $500 AGI above $50,000 for married filing separately). So, for most taxpayers, no deduction is available if AGI is more than $109,000. For married filing separately, the deduction disappears for AGIs above $54,500.
- The deduction applies to home-purchase loans, and to refinanced loans up to the original acquisition-loan amount.
- The residence must be the taxpayer's principal residence or a qualified second home.
- Generally, lump-sum premiums paid for insurance beyond one year of coverage cannot be deducted in full for the year they are paid. The premium must be amortized over the number of years the sum is allocated.

For more information on deducting mortgage insurance premiums, see IRS Publication 936, *Home Mortgage Interest Deduction*.

Yet Another Deduction

You may treat as mortgage interest—and take a deduction for—late payment charges on your mortgage if they are not for a specific service performed in connection with your mortgage loan. You can also treat a mortgage prepayment penalty as interest, and deduct it, if the penalty is not for a specific service performed or cost incurred in connection with your loan.

ATTENTION!

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Although the most-recent federal home-buyer tax credit expired for most Americans in 2010, qualified members of the U.S. uniformed services, Foreign Service and intelligence community received an extension into 2011.

The first-time-buyer credit is equal to 10% of the purchase price up to an $8,000 credit ($4,000 if married filing separately) for purchasers who did not own a primary home in the three years prior to closing/settlement on the new home.

The long-term-owner credit is 10% of the purchase price up to $6,500 ($3,250 if married filing separately) for buyers who owned and used a principal residence for any consecutive five-year period during the eight years prior to the new home purchase.

To qualify for the 2011 extended credit, purchasers must have:

- Served on qualified extended duty outside the United States for at least 90 days after December 31, 2008 and before May 1, 2010.
- Signed a binding contract to purchase a home by April 30, 2011 and closed/settled by June 30, 2011.
- Purchased a home with a purchase price of no more than $800,000.
- Modified adjusted gross income (MAGI) of no more than $125,000 for single filers to receive the full credit (credit phases out for incomes between $125,000 and $145,000) or MAGI up to $225,000 for married joint filers to get the full credit (phase-out up to $245,000).

To claim the credit, complete Form 5405 and include supporting documentation, such as a copy of the settlement/closing statement. (Returns must be mailed rather than e-filed.)

There's more! For complete rules, see IRS Instructions for Form 5405, available online at *www.TinyURL.com/yaafdy4*.

Why Is 2012 Tax Day On Tuesday, April 17?

This year, April 15 is on a Sunday, and April 16 is Emancipation Day, a legal holiday in Washington D.C.

FORMER HOMEOWNERS

Tax Treatment For Those Who Left Or Lost Their Homes

Strategic default—walking away from your mortgage when you could afford to pay it—can have substantial tax consequences. For example, if you walked away from a home owing $250,000 on your mortgage and your lender sold the property for $150,000, the $100,000 difference may be treated in two possible ways:

1. The lender could file a lawsuit for a "deficiency judgment," which, if successful, would make you pay back the $100,000. (In some states, "no-recourse" laws prevent lenders from pursuing this action.)

2. The $100,000 difference could be "discharged" by the lender, forgiving the obligation to repay. However, forgiven debt may be considered a reportable gain and be taxable as income if you cannot prove you were financially insolvent when you walked away from your home. The downside: You could end up paying tens of thousands in taxes on "income" you never saw.

For those who truly could not afford their mortgage, and had debt forgiven through a short sale, foreclosure, deed in lieu of foreclosure, or debt restructuring, some relief may be available. **The Mortgage Forgiveness Debt Relief Act of 2007, effective through 2012, allows qualified taxpayers to exclude forgiven debt from taxation, within limits.**

If you had debt forgiven in 2011, you will receive Form 1098-C from the lender indicating the amount forgiven, which must be reported on your 2011 tax return. For particulars, see IRS Publication 4681, *Canceled Debts, Foreclosures, Repossessions and Abandonments*. Use IRS Form 982 to report discharged debt.

AFTERMATH

Dealing With Destruction

If you lost property in 2011 due to an accident, storm, fire, flood, drought or other unforeseen occurrence, you may not have to report insurance proceeds if you replace the property within a specified time. Additionally, if the home was located in a federally declared disaster area, you can claim the loss on your tax return in the year of the loss (2011) or for the preceding year. Local and state property taxes may also be abated in some cases. Consult IRS Publication 547, *Casualties, Disasters, and Thefts* to find out more.

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SPECIAL TAX ISSUE

Your Advantage As A Homeowner: Great Tax Breaks For 2011

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TAX TIP!

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