

TAX Q&A

I have a mortgage for my primary residence and a second mortgage for land that I intend to build a home on. Can the interest be deducted for the second mortgage?

Unless you have begun construction of a home on the bare land that you can occupy within 24 months, the land would be considered an investment and the interest you paid on the second mortgage would not qualify as deductible mortgage interest. However, it would constitute investment interest if you itemize your deductions.

Is the mortgage interest and property tax on a second residence deductible?

The mortgage interest on a second home which you use as a residence for some portion of the taxable year, is generally deductible if the interest satisfies the same requirements for deductibility as interest on a primary residence. Real estate taxes paid on your primary and second residence are, generally, deductible. Deductible real estate taxes include any state, local, or foreign taxes on real property levied for the general public welfare. Deductible real estate taxes do not include taxes charged for local benefits and improvements that increase the value of the property.

If I take the exclusion of capital gain tax on the sale of my old home this year, can I also take the exclusion again if I sell my new home in the future?

You cannot exclude gain on the sale of your home if, during the 2-year period ending on the date of the sale, you sold another home at a gain and excluded all or part of that gain. If you cannot exclude the gain, you must include it in your income.

Exception. You still can claim an exclusion, but the maximum amount of gain you can exclude will be reduced, if the reason you sold the home was:

- A change in place of employment
- Health, or
- Unforeseen circumstances (as defined earlier)

With the exception of the 2-year waiting period, there is no limit on the number of times you can exclude the gain on the sale of your principal residence so long as you meet the ownership and use tests.

I lived in a home as my principal residence for the first 2 of the last 5 years. For the last 3 years, the home was a rental property before selling it. Can I still avoid the capital gains tax and, if so, how should I deal with the depreciation I took while it was rented out?

If, during the 5-year period ending on the date of sale, you owned the home for at least 2 years and lived in it as your main home for at least 2 years, you can exclude up to the maximum dollar limit. However, you cannot exclude the portion of the gain equal to depreciation allowed or allowable for periods after May 6, 1997.

Is the loss on the sale of your home deductible?

The loss on the sale of a personal residence is a nondeductible personal loss.

THIS IS GENERAL INFORMATION - SEEK THE ADVICE OF A TAX PROFESSIONAL BEFORE YOU DO ANYTHING.