

HOME BUYING 101 (To be a smart home buyer read all topics)

Benefits of Buying a Home

Topic Objective: To expose consumers to the economic benefits of owning a home.

Is it the “American Dream” to own a home? For most adults it is. When we focus on the dream it become the thoughts of having a place of our own. A home that you can put your own creativity in: beautiful wall paper, painted walls of your choice, new carpet, maybe some hardwood floors, tile the bathroom, build a deck, and plant trees, bushes and flowers. Whatever it is you do, you take pride in doing it.

Other than the opportunity to put your creativity into a home of your own, there are several financial incentives in home ownership. These benefits include tax advantages and equity growth.

Tax Advantages

- * Annually the home owner is allowed to deduct the interest and real estate taxes when filing their federal and state tax return when itemizing deductions.

Example: On a purchase of a \$250,000 home with a 6.00 % interest rate for a \$200,000 loan the following annual deductions would be realistic for the first few years of the loan:

Interest	\$12,000
Tax	3,750

If you were in a 15% tax bracket the Annual savings would be \$2,362.50

- * When selling a home, as long as you have lived in the home two of the last five years you can take capital gains of a minimum of \$250,000 if you are single or \$500,000 if married without paying any income taxes on the gain.

Equity Growth

At a 5% annual appreciation rate on a \$250,000 home in ten years the home would have a value of \$407,220, a gain of \$157,220 and this could be tax free if you sold the property.

Self evaluation on Benefits of Buying a home

1. Home owners may deduct the following home expenses on their personal tax return:

- a. Interest
 - b. Tax
 - c. Maintenance
2. Capital gains are tax free on gains up to \$250,000 when a home is sold providing:
- a. The owner has lived in the home for 5 years.
 - b. The owner has lived in the home 3 of the last 5 years.
 - c. The owner has lived in the home 2 of the last 5 years.
3. Annual appreciation of 5% on a \$250,000 home would accumulate in ten years to:
- a. \$50,000
 - b. \$100,000
 - c. Over \$150,000

Answers: 1. (a & b) 2. (c) 3. (c)