10 Most Overlooked Real Estate Tax Breaks

April 15, the date our income tax returns are due should serve as the ultimate reminder to review the most frequently overlooked real estate tax savings deductions.

It's much easier to correctly claim a real estate tax deduction when filing your original tax return than to later file an amended IRS Form 1040X to claim a forgotten tax deduction. I discovered the IRS hates to part with money so they often scrutinize 1040X refund requests due to additional deductions extremely carefully.

However, if you later remember an overlooked tax deduction that can be documented, form 1040X can be used to amend your tax returns after the original due date. Here are the 10 most frequently forgotten real estate tax deductions:

1.) LOAN FEE "POINTS" PAID TO OBTAIN A HOME ACQUISITION MORTGAGE. Homeowners rarely forget to deduct their mortgage interest and property taxes. However, if you bought your principal residence last year and you paid the mortgage lender a loan fee (usually called "points"), that loan fee is deductible as itemized interest on Schedule A. Each point equals 1 percent of the amount borrowed.

To illustrate: if you obtained a $200,000 mortgage to buy your home, and if you paid a one-point loan fee to the lender, that $2,000 fee qualifies as itemized interest. However, if you paid a loan fee to obtain a mortgage secured by other real estate, such as an investment property, that loan fee is never fully deductible up-front and can only be deducted over the life of the mortgage.

But the IRS Form 1098 your lender sent you reporting your annual interest paid might not include the loan fee. Be sure to double-check. Your best proof of the loan fee payment is often the closing statement received when the acquisition mortgage was recorded.

2.) DEDUCT MORTGAGE REFINANCE FEES PAID TO THE LENDER OVER THE LIFE OF THE MORTGAGE.

If you refinanced your home loan, as millions of borrowers have done in the past few years, and if you paid a loan fee to obtain the refinanced mortgage, it can only be deducted over the life of the mortgage, such as 15, 20, or 30 years.

For example, if you paid your lender a $3,000 loan fee to refinance your 30-year home mortgage, you can deduct $100 each year for the next 30 years.

Because this annual loan fee deduction for refinanced mortgages is so small, it is easy to forget. Instead, many borrowers prefer to obtain so-called "no cost" refinanced home loans even if the fully deductible interest rate is slightly higher. Another reason to avoid paying a loan fee on a refinanced mortgage is most home loans are paid off or refinanced in less than 10 years, either due to sale of the property or another refinancing.

3.) DEDUCT UNDEDUCTED LOAN FEES FROM A PRIOR HOME LOAN REFINANCE.

If you refinanced a prior refinanced home loan, remember to deduct any remaining undeducted loan fee in the tax year of the refinance.

Suppose you had $2,000 of undeducted loan fees remaining from a prior home mortgage refinance. That $2,000 became fully deductible interest as a lump sum in the year of the second refinance.

4.) DEDUCT THE MORTGAGE PREPAYMENT PENALTY YOU PAID.

If you sold your home, or refinanced your mortgage, and had to pay a mortgage prepayment penalty to the old lender, that prepayment penalty qualifies as itemized tax-deductible interest. Prepayment penalties most

frequently apply to home loans during the first three to five years, depending on the terms of the mortgage.

5.) IF YOU CHANGED RESIDENCES AND JOB LOCATION, YOUR MOVING COSTS MAY BE TAX DEDUCTIBLE.

It doesn't matter if you are a renter or a homeowner, but you may qualify to deduct your unreimbursed moving costs if you changed both your residence and job location.

Moving costs can be a huge tax deduction, especially if you made a long-distance move not paid by your employer. The residence move must come within 12 months before or after the job site change.

Use IRS Form 3903 to calculate and claim this big tax break. To qualify, the distance from your old home to your new job location must be a certain distance so check current tax code to validate.

Number of weeks worked prior to the move can also be a factor. Either spouse can qualify, but part-time work doesn't count.

6.) DON'T FORGET TO DEDUCT ANY UNINSURED CASUALTY LOSS.

If you suffered an uninsured "sudden, unusual, or unexpected" loss, such as those due to a fire, flood, hurricane, tornado, earthquake, mudslide, theft, accident, water damage, riot, embezzlement, vandalism, snow, rain, or ice storm, you may qualify for the casualty loss tax deduction.

Slow losses such as termite damage, dry rot, rust, moth damage, Dutch elm disease, erosion, mold, corrosion, and dry well typically do not apply.

There are also special business tax breaks for depreciation, expenses, and other losses. To obtain a copy, call the IRS at 800-829-3676 or go to www.irs.gov.

7.) REMEMBER TO DEDUCT PRO-RATED PROPERTY TAX IN THE YEAR OF HOME SALE OR PURCHASE.

Another often-overlooked homeowner tax deduction occurs in the year of sale or purchase. As part of the sale closing settlement, the property taxes must be pro-rated between the buyer and seller based on the number of days each party owned the home during the property tax year.

Your best proof of payment of your pro-rated property tax share is usually the closing settlement statement.

8.) DEDUCT PRO-RATED MORTGAGE INTEREST IN YEAR OF HOME SALE OR PURCHASE.

Another pro-rated itemized tax deduction is the pro-rated mortgage interest for the month of sale. This pro-rated interest deduction occurs if the home buyer assumed or purchased "subject to" an existing mortgage.

The best proof of this pro-rated mortgage interest deduction is the closing settlement statement. Of course, when a home buyer obtains a new mortgage, there is no pro-rated interest deduction on the old mortgage.

9.) REMEMBER TO DEDUCT PREPAID PROPERTY TAXES AND MORTGAGE INTEREST.

If you are like millions of U.S. homeowners looking for every dollar of tax deductions, you may have prepaid your part of your property taxes and mortgage interest.

These payments are tax deductible in the year of actual payment. Not all property tax collectors allow prepayment, but many do. Or you may have prepaid your mortgage payment in December to gain a few

hundred extra dollars of itemized interest deductions.

10.) DEDUCT GROUND RENT IF YOUR HOME IS ON LEASED LAND.

A little known tax deduction for the millions of homeowners whose residences are on leased land is the ground rent payments.

To qualify, Internal Revenue Code 163(c) permits homeowners living on leased land to deduct their ground rent payments if a) the ground lease is for at least 15 years, including renewal periods, b) the land lease is freely assignable to the buyer of your home, c) the land owner's interest is primarily a security interest (similar to a mortgage), and d) you have a current or future option to buy the land beneath your home.

If your situation does not meet all four of these tests, your ground rent payments are not tax deductible as interest.

To illustrate: if you rent a "lot" or "pad" in a mobile home park, your monthly rent paid to the park owner is not deductible unless you have at least a 15-year lease with a land purchase option for your lot or pad.

NON-DEDUCTIBLE HOMEOWNER PAYMENTS

Monthly payments into a mortgage escrow impound account held by your mortgage lender are not immediately tax deductible until the loan servicer remits the full property tax payment to the local tax collector when it becomes due.

However, the monthly insurance premium paid into your escrow account for homeowner's insurance is a personal non-deductible expense.

Most lenders itemize the deductible portion of escrow payments on the borrower's annual IRS Form 1098. Of course, if you pay your property taxes direct to the local tax collector without an escrow account, your lender won't itemize your property tax payment.

If you bought or sold a home, you probably paid closing costs such as transfer tax, recording fees, escrow, title, or attorney fees, sales commission, and other non-deductible expenses.

Home buyers should add these non-deductible expenses paid to their purchase price cost basis. Home sellers can subtract many of their selling expenses from the gross sales price. Full details on these and other homeowner and real estate investor tax benefits are available from your personal tax adviser.