Know What's Deductible After Buying That First Home, Sweet Home

Making the dream of owning a home a reality is a big step for many people. Whether a fixer-upper or dream home, homeownership is a milestone that can come with a learning curve. First-time homeowners should make themselves familiar with authorized deductions, programs that can assist with home ownership and the use of housing allowances that can be beneficial.

When it comes to home ownership, the IRS considers a home to be a house, condominium, cooperative apartment, mobile home, houseboat or house trailer that contains a sleeping space, toilet and cooking facilities.

Most home buyers take out a mortgage loan to buy their home and then make monthly payments to the mortgage holder. This payment may include several costs of owning a home. The only costs the homeowner can deduct are:

- **state and local real estate taxes**, subject to the $10,000 limit
- **home mortgage interest**, within the **allowed limits**
- **mortgage insurance premiums**

Taxpayers must file Form 1040, U.S. Individual Income Tax Return or Form 1040-SR, U.S. Income Tax Return for Seniors, and **itemize their deductions** to deduct home ownership expenses. However, taxpayers can't take the **standard deduction** if they itemize.

Non-deductible payments and expenses

Homeowners can't deduct any of the following items.

- Insurance, other than mortgage insurance, including fire and comprehensive coverage, and title insurance
- The amount applied to reduce the principal of the mortgage
- Wages you pay for domestic help
- Depreciation
- The cost of utilities, such as gas, electricity, or water
- Most **settlement or closing costs**
- Forfeited deposits, down payments, or earnest money
- Internet or Wi-Fi system or service
- Homeowners' association fees, condominium association fees, or common charges
- Home repairs

Mortgage interest credit

The mortgage interest credit is meant to help individuals with lower income afford home ownership. **Those who qualify can claim the credit** each year for part of the home mortgage interest paid.

A homeowner may be eligible for the credit if they were issued a qualified Mortgage Credit Certificate from their state or local government. An MCC is issued only for a new mortgage for the purchase of a main home. The MCC will show the certificate credit rate the homeowner will use to **figure their credit**. It will also show the certified indebtedness amount and only the interest on that amount qualifies for the credit.

Homeowners Assistance Fund

The **Homeowners Assistance Fund** program provides financial assistance to eligible homeowners for paying certain expenses related to their principal residence to prevent mortgage delinquencies, defaults, foreclosures, loss of utilities or home energy services, and also displacements of homeowners experiencing financial hardship after January 21, 2020.

Minister's or military housing allowance

Ministers and **members of the uniformed services** who receive a nontaxable housing allowance can still deduct their real estate taxes and home mortgage interest. They don't have to reduce their deductions based on the allowance.