

Home/Property

Stormy Weather Brings Tax Relief

If you've suffered the personal anguish of losing your home or property in a natural disaster, the IRS has made it a little easier to survive the financial anguish. To claim your loss, you must itemize deductions on Schedule A and attach Form 4684 to your return. The loss amount is based on the lower of two numbers: Either the price paid for the property plus any improvements (called the basis) before the disaster, or the property's decline in market value, which can be determined by repair costs. The deductible amount is reduced by insurance and other nontaxable reimbursements. If you don't use the property for business, the deductible amount is reduced by \$100 and then by 10 percent of your adjusted gross income. Reimbursements for losses are not taxable, unless you come out ahead by receiving more for the property than its original cost plus the cost of improvements. Even if the reimbursement is more than the basis, you don't have to pay tax currently if you replace lost, damaged or destroyed items with similar property within two years after the event. To avoid paying taxes on any gain resulting from insurance proceeds, you should replace property with similar property. (IRS publication 584 provides a list of common household items and serves as a guideline to report what was lost.) However, because insurance proceeds for the home and its contents are considered a common pool of funds, you can use more of the money to replace the house than the contents or vice versa. Replacement property does not have to match item for item. Food, medical supplies and other forms of assistance the you receive are not taxable, nor do these items reduce the loss unless they are replacements for lost or destroyed items. You have up to four years to replace your principal residence or pay the gain. You can choose to deduct a loss on your current year return or amend the preceding year's return, whichever helps your current financial or tax situation the most. As a taxpayer in a disaster areas, your filing deadline may be postponed up to 90 days. Any interest that normally would apply for late payments is waived in this situation.

Home Sweet Home Tax Deductions

If you used your old home as your principal residence for two of the last five years, you won't pay tax on the gain from its sale unless you gained more than \$250,000 (\$500,000 if married and filing jointly). If you buy a new house, you'll be able to deduct your interest payments and, possibly, any points you paid to get the loan. So if you upgraded to a bigger loan and more interest, your deduction will be higher and your taxes lower.

QPRT: the Tool for Transferring Home Ownership

A qualified personal residence trust (QPRT) allows you to transfer ownership of your home to your children or other relatives while you retain the right to live in the home for a specified period. It is one of the many estate-planning tools you and a qualified financial planner can consider to determine the most valuable techniques for you.

Selling your Inherited Homestead has Tax Consequences

Your basis in an inherited home is the fair market value at the time of the prior owner's death. When you sell property, you usually have a gain or loss, that is, the difference between the sales price and the inherited value plus the expenses of the sale. If the

amount is a loss, it is a deductible capital loss on Schedule D, provided you did not use the home as your principal residence.

Steer Automobile Deductions Your Way

Depending on where you live, you may be able to write off part of what you pay for auto license tags as a personal property tax. Any part of the fee based on the value of your car is deductible. This helps residents in about one-third of the states. If you're not sure, call your local department of motor vehicles.

Don't Overlook This Tax Deduction

If you itemize deductions, you probably already know to deduct the personal property tax you pay on your car, if your state has such a tax. But do you remember to deduct the personal property tax you may pay on your boat? Personal property taxes are deductible if they are based only on the value of the property; and charged on an annual basis, even if collected more or less often than once a year.