

Preparing to Buy a Home – Renting vs. Buying

There's nothing quite like a home that you can truly call your own. A place where you can have the gleaming hardwood floors you've always dreamed of, a space to cultivate your own vine-lined patio, a way to provide a good neighborhood for your kids to grow up in, and a freedom from the whims of your landlord. These are the images that immediately come to mind, for many of us.

Yet some of the biggest advantages of owning a home are less romantic and more practical – in fact, there are financial advantages to owning a home:

- **Tax Deductibility** You can deduct the cost of your mortgage loan interest from your state and federal income taxes. Since interest generally will account for most of your payment during the first half of your mortgage, the savings can be significant. Some of your costs at the time of closing (including prepaid mortgage interest) can be taken as deductions on that year's income tax return, and points paid up front at the time of closing represent additional mortgage interest and may be taken as a deduction.
- **Tax Deductibility of Property Taxes** You can deduct all of the property taxes you pay.
- **Appreciation Potential** Real estate is considered a good long-term investment because it usually appreciates in value. The effects of borrowing potential can increase as the value of the home appreciates.
- **Capital Gains Exclusion** When it's time to sell your home the amount of capital gains you have to pay is reduced. A homeowner can exclude up to \$500,000 per couple if married and filing jointly, or \$250,000 if single or filing separately for homes that have been the taxpayer's principal residence for the previous two years.
- **Capital Gain Treatment** Congress allows preferential tax treatment on gains from capital assets held for more than one year. This would be important for a homeowner who has gains in excess of the allowable exclusion.
- **Principal Accumulation** Mortgages are designed to pay the interest for the time that the money has been used, as well as to retire the principal debt over a period of time. This payment plan means that part of the payment each month is for principal accumulation.
- **Personal Enjoyment** Pride of ownership is a valid reason for wanting to own a home. You can personalize your home while enjoying the financial benefits.

For the best evaluation of your financial situation, consult your financial advisor. He/she will be the most qualified to discuss the financial consequences of a home purchase decision, as well as help you to establish a plan that will achieve your home ownership goals.