

Home Ownership: Are You Ready?

The purchase of a first home is an exciting time in anyone's life. It's also a large financial undertaking, a fact that leaves many people wondering whether they're prepared for this big step. The California Society of CPAs (www.calcpa.org) suggests you answer these questions to help you decide if the time is right for you.

WHAT'S THE HURRY?

Owning your own home is a tempting prospect, but make sure that you are not hurried into making a decision. Home sales have generally been slow for the past year, which makes it less likely a house you like will be bought overnight. Even when the market is hot, though, it's best to look around in different neighborhoods and at various types of homes to see what you can afford and to be sure you have all the information you need.

HOW MUCH WILL IT REALLY COST ME?

You are probably aware that you will need a down payment, usually about 20 percent of the home's purchase price, to buy a home and that you will then make monthly payments on a mortgage that covers the rest of the total purchase price.

Those aren't the only costs of home ownership, however. You will likely also have to make monthly payments for local property taxes, utilities and home owners' insurance, as well as cover one-time upfront costs for moving and any furniture or appliances you need. Consider also the price of any renovation or repairs the house may need, and for general upkeep of the home and property around it.

HOW DO TAXES COME INTO IT?

There are many potential tax deductions associated with home ownership that you should be aware of as you plan your purchase. For example, many people are able to deduct the interest they pay on their home mortgage loan. In the early years of a mortgage, that interest is the lion's share of your monthly payment, so this potential deduction is a good thing. That's because when you take deductions, they lower your taxable income and, as a result, you end up paying fewer taxes overall.

In many cases the points you pay on a mortgage loan may also be deductible. And, while real estate taxes are one of the hidden costs you should be aware of, they are also deductible. All of these deductions added together could mean a little more money in your pocket each month.

WHAT ABOUT THE FIRST-TIME HOMEBUYER CREDIT?

The federal government has enacted legislation to encourage purchases of principal residences by first-time homebuyers. First-time homebuyers are people who have not owned a principal residence during the three years before the title closing date.

First-time buyers may receive a tax credit of up to 10 percent of the purchase price but no more than \$8,000 if they purchased a principal residence between Jan. 1 and Nov. 6, 2009. The credit, however, is restricted to buyers whose modified adjusted gross income does not exceed \$170,000 for married couples filing jointly or \$95,000 for individuals. Slightly different rules apply for homes bought in 2008.

The recently passed Worker, Homeownership and Business Assistance Act of 2009, which covers the period from Nov. 7, 2009, to April 30, 2010, does not change the credit for first-time homebuyers. But to get the credit, homebuyers cannot purchase a property worth more than \$800,000. The new law also allows people in higher income brackets to qualify for the credit.

In addition, the new law provides a credit of up to \$6,500 for qualified couples and individuals who

are long-time homeowners but want to change residences. Long-time homeowners are people who have owned a principal residence for at least five consecutive years over an eight-year period.

You can learn more about the first-time or long-time homebuyer credits at www.irs.gov, the Web site of the Internal Revenue Service.

YOUR CPA CAN HELP

Your local CPA can help you determine how much house you can afford and what your monthly or one-time costs will be, as well as the tax effect of a home purchase. Turn to him or her with all your financial questions.

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Bill Spaniel
Public Relations Manager
California Society of CPAs / CalCPA Institute
330 N. Brand, #710
Glendale, CA 91203
Ph: 818.546.3552 / 800.922.5272
Fax: 818.246.4017
bill.spaniel@calcpa.org
www.calcpa.org
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