Why You Should Own a Home . . . NOW!!

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This just in from Trulia.com's Tara Nicholle Nelson. She's giving us the lowdown on the advantages of home ownership:

"Ask a roomful of homeowners what's so great about owning versus renting, and you'll hear them holler in unison: "the tax deductions!" And it's true – homeowners who itemize their taxes are able to deduct 100% of their mortgage interest and property taxes from their income tax returns.

"That means that if you're in a 28% tax bracket, Uncle Sam effectively subsidizes about a third of your borrowing costs or more, making your home more affordable or allowing you to buy a larger home than you could have otherwise. Also, big chunks of your closing costs are tax deductible, and hundreds of thousands of dollars of any profit (or capital gains) that you realize when you sell your home are exempt from income taxes.

"At tax time, it's critical to know what you're entitled to, so you can claim it. So, here are five essential need-to-knows about home-related income tax tips to help you get the most tax-reducing bang out of your home-owning buck – and to avoid hefty home ownership-related tax traps.

1. You Have to Itemize Your Return to Claim Your Deductions

"During the recent debate on Capitol Hill about whether the mortgage interest deduction should be eliminated (it won't be, not anytime soon), it came out that nearly 40% of homeowners lose out on their major tax advantages every year when they fail to itemize their income taxes. If you own a home and otherwise have a fairly simple return, it might be tempting just to take the standard deduction – and if your mortgage, property taxes and income are low enough, the standard deduction might outweigh your homeowners' deductions. But you'll never know if you're losing out on the tax advantages of itemizing unless you try; before you grab a pen and start filling in that 1040-EZ grab those forms from your mortgage company and answer the questions on tax software like TurboTax, which will automatically do the math on whether itemizing or taking the standard deduction will result in the lowest tax bill – or the highest tax refund – for you.

2. Plan Ahead and Be Strategic When Taking a Home Office Deduction

"According to the Small Business Administration, the average home office deduction is $3,686 – multiply that by your tax bracket – 15%, 20%, 30% or whatever it is, and that's what you'll save on your taxes by writing off your home office. Know, though, that the space you designate as your home office cannot be exempted from capital gains tax when you sell your home later. The $250,000 (single)/ $500,000 (married filing jointly) income tax exemption for capital gains is only good on your personal residence, after all – not including any space in your home you've claimed as your tax-advantaged office. If you foresee selling your home for much more than you bought it in the future, near or far, discuss this with your tax preparer to see if the few hundred bucks you save is worth the capital gains complication later.

3. Tax Relief for Loan Modifications, Short Sales and Foreclosures Is Only Around Through 2012

"While the long-term housing outlook is beginning to look up, 2011 is projected to be the peak year for foreclosures during this market cycle. Distressed homeowners who are on the brink of a short sale, loan modification or foreclosure should be aware that normally, any mortgage balance that is wiped out by one of these outcomes is taxed as what the IRS calls Cancellation of Debt Income, or CODI.

"Under the Mortgage Debt Forgiveness Relief Act of 2007, the IRS is currently not charging income taxes on CODI incurred through a loan mod, short sale or foreclosure on most primary residences through 2012. But right now, banks are taking many months, or even years, to work out mortgages in all of these ways; the average foreclosure in New York state right now occurs only after 22 months of missed mortgage payments. If you foresee any of these outcomes in your future, don't put things off. Do what you can to get to closure on your distressed home and loan, ASAP, while you won't have income taxes to add as the insult on top of your significant housing injury.

4. Project the Income Tax Consequences of a Refinance or Property Tax Appeal

"Homeowners everywhere are working on applying for a lower property tax bill on the basis of the last few years' decline in their home's value. Those who have equity have flocked en masse to refinance their 7% home loans into the 4% to 5% rates of the last few months. These strategies offer some of the heftiest household savings out there for the corresponding investment in time and money they take. But here's a caveat for savvy homeowners who slash these costs: remember that property taxes and mortgage interest, the very costs you're minimizing, are also the basis for the major tax benefits of being a homeowner. So plan ahead for your income tax deductions to go down along with your taxes and interest.

5. Don't Forget Those Closing Costs

"If you bought or refinanced your home in 2010, you may be so focused on your mortgage interest and property tax deductions that you forget all about your closing costs. Any origination fees or discount points that were paid to your mortgage lender at closing are tax deductible on your 2010 return, get this – even if the seller paid your closing costs. If you can't figure out exactly what you paid, look for your HUD-1 settlement statement, that legal sized paper full of line item credits and debits that you should have received from your escrow provider or title attorney at, or just after, closing. Can't find it? Drop your real estate agent or mortgage broker an email; they can usually get a copy to you quickly." Note: This post first appeared on WalletPop.com on 2.28.2011.