2021 Tax Deductions & Credits for Homeowners

► Homeownership is a central component of the American Dream. It is also a vital part of the American economy, and owning a home has federal and local tax benefits. The Internal Revenue Service (IRS) offers tax credits and deductions for buying, owning, and selling a home. The IRS tax code, which is thousands of pages long, details the tax filing rules for businesses and individuals—and it changes every year. This document summarizes the 2021 homeownership tax deductions and credits.

Tax Status and Bracket

The IRS has five tax filing statuses: single, married filing jointly, married filing separately, head of household, and qualifying widow or widower with dependent child.

Table 1. Internal Revenue Service Tax Filer Status

Single	■ Legally single/ not married. ■ Divorced or legally separated.
Married Filing Jointly	■ Married and decide to file a single tax return together.
Married Filing Separately	■ Married and decide to each complete an individual tax return. ■ If filing jointly would result in more taxes owed, a married couple might select to file separately.
Head of Household	■ Legally single/ not married. ■ Pays more than half the household's expenses. ■ A dependent living with you or you pay more than half a dependent's living costs elsewhere.
Qualifying Widow(er) with Dependent Child	■ If spouse died within the last 2 years, and there is a dependent child.

A tax bracket determines the tax rate—the percentage of income a tax filer must pay in federal taxes for a given tax year. A tax filer's bracket is determined by filing status and income level. The IRS determines the number of tax brackets and the tax rate for each bracket. Tax brackets and rates may change from year to year. For example, the 2021 tax year has seven tax brackets.

Tax Deduction vs. Tax Credit

A tax deduction is affected by a filer's tax status and bracket. A tax deduction reduces your taxable income, the amount of your earnings that are taxed. With a deduction, your tax bracket depends on the amount of money you save in taxes. For example, if you are in the 24 percent tax bracket and you receive a $100 tax deduction, the actual value of the deduction to you is $24 ($100 x 24 percent).

A tax credit reduces what you owe, also called dollar-for-dollar tax liability. For example, a $100 tax credit reduces your tax liability by $100.

Table 2.1 Single Filers		
Tax Rate	**Taxable Income Bracket**	**Tax Owed**
10%	$0 to $9,950	10% of taxable income
12%	$9,951 to $40,525	$995 plus 12% of the amount over $9,950
22%	$40,526 to $86,375	$4,664 plus 22% of the amount over $40,525
24%	$86,376 to $164,925	$14,751 plus 24% of the amount over $86,375
32%	$164,926 to $209,425	$33,603 plus 32% of the amount over $164,925
35%	$209,426 to $523,600	$47,843 plus 35% of the amount over $209,425
37%	$523,601 or more	$157,804.25 plus 37% of the amount over $523,600

Table 2.2 Married, Filing Jointly		
Tax Rate	**Taxable Income Bracket**	**Tax Owed**
10%	$0 to $19,900	10% of taxable income
12%	$19,901 to $81,050	$1,990 plus 12% of the amount over $19,900
22%	$81,051 to $172,750	$9,328 plus 22% of the amount over $81,050
24%	$172,751 to $329,850	$29,502 plus 24% of the amount over $172,750
32%	$329,851 to $418,850	$67,206 plus 32% of the amount over $329,850
35%	$418,851 to $628,300	$95,686 plus 35% of the amount over $418,850
37%	$628,301 or more	$168,993.50 plus 37% of the amount over $628,300

Table 2.3 Married, Filing Separately		
Tax Rate	**Taxable Income Bracket**	**Tax Owed**
10%	$0 to $9,950	10% of taxable income
12%	$9,951 to $40,525	$995 plus 12% of the amount over $9,950
22%	$40,526 to $86,375	$4,664 plus 22% of the amount over $40,525
24%	$86,376 to $164,925	$14,751 plus 24% of the amount over $86,375
32%	$164,926 to $209,425	$33,603 plus 32% of the amount over $164,925
35%	$209,426 to $314,150	$47,843 plus 35% of the amount over $209,425
37%	$314,151 or more	$84,496.75 plus 37% of the amount over $314,150

Table 2.4 Head of Household		
Tax Rate	**Taxable Income Bracket**	**Tax Owed**
10%	$0 to $14,200	10% of taxable income
12%	$14,201 to $54,200	$1,420 plus 12% of the amount over $14,200
22%	$54,201 to $86,350	$6,220 plus 22% of the amount over $54,200
24%	$86,351 to $164,900	$13,293 plus 24% of the amount over $86,350
32%	$164,901 to $209,400	$32,145 plus 32% of the amount over $164,900
35%	$209,401 to $523,600	$46,385 plus 35% of the amount over $209,400
37%	$523,601 or more	$156,355 plus 37% of the amount over $523,600

Benefits for Homeowners

When you own a home, the IRS allows you to deduct some expenses on your annual tax return. You can deduct home mortgage interest, property tax, loan points, or loan origination fees.

Home Mortgage Interest

If you have a mortgage on your home, the mortgage lender will send a Form 1098 in the first few months of each year. The amount you paid in mortgage interest is listed on the form. Homeowners are allowed to deduct mortgage interest on their federal tax returns each year. For many Americans who itemize their taxes, the mortgage interest deduction is the single largest deduction. However, a lot of people may choose to take a standard deduction instead of itemizing. For 2021, the IRS set the standard deduction at $12,550 for singles and $25,000 for married couples. If the total amount that can be deducted is less than $12,550 (single) or $25,000 (married), it is usually better to take a standard deduction than to itemize. Use IRS publication 936, Home Mortgage Interest Deduction (https://www.irs.gov/publications/p936) to learn more about claiming this deduction.

Property Tax

IRS topic No. 503 provides detailed information on deductible taxes. Visit the IRS website to learn more on this topic at https://www.irs.gov/taxtopics/tc503.

A homestead exemption is available in most states, including Alabama. The Alabama Department of Revenue defines a homestead as “a single-family owner-occupied dwelling and the land thereto, not exceeding 160 acres.” A homestead exemption reduces the property taxes paid on a primary residence. Exemptions are available for state, city, and county taxes and vary by municipality. Exemptions may have age or disability eligibility requirements and income or assessed property value limitations. To download an Alabama homestead exemption chart, visit the Alabama Department of Revenue website at https://revenue.alabama.gov/property-tax/homestead-exemptions/.

Loan Points or Origination Fees

Most people pay some form of loan fees to their lender when they have a mortgage on a home. Mortgage points are a type of fee that someone pays to a mortgage company in exchange for a lower interest rate on a loan. Other common names for fees include an origination fee, maximum loan charges, discount points, or loan discounts. Both fees and points are tax deductible. They are reported on Form 1098 provided annually by the mortgage lender. For more information on interest expenses see IRS Topic 505 at https://www.irs.gov/taxtopics/tc505.

A residential energy credit is also available for homeowners who make energy-efficient improvements to their primary home or second home. The credit includes equipment that harnesses solar, wind, geothermal, and fuel cell technology. Examples of equipment include solar panels, solar-powered water heaters, and wind turbines. For the 2021–2022 tax year, the credit equals up to 26 percent of the equipment cost, including installation.

For more information, see IRS Form 5695, Residential Energy Credits at https://www.irs.gov/forms-pubs/about-form-5695.

Benefits for Selling a Home

For most people who sell a home, the profit from the sale is tax free. To be excluded from tax and keep 100 percent of the profit tax free, you must have lived in the home for at least 2 of the 5 years before the sale date. Even if you do not meet the requirement for the length of time lived in the home, you may still qualify for some or part of the tax exclusion if you meet the following:

- Rented out the home for any period of time
- Are divorced or your spouse passed away
- Changed employment
- Experienced an unforeseen health or family circumstance

Contact a tax professional about the specific details of your situation. To keep the full amount, the profit must be less than $250,000 if you are single or file separately. If you are single and file a joint tax return, you can keep 100 percent if the profit is less than $500,000.

IRS Form 1099-S: Proceeds from Real Estate Transactions (https://www.irs.gov/forms-pubs/about-form-1099-s) is used by the real estate broker or mortgage company to report profits from the sale of a home. The IRS does not require that the real estate agent who closes the deal use Form 1099-S to report a home sale amounting to $250,000 or less ($500,000 or less for married couples filing jointly). If you feel you meet the requirements to be excluded from paying tax on home sale profit, tell your broker and mortgage company any time before February 15 of the year after the home sale. If the broker or mortgage company agrees that you meet the exclusion requirement, they will not fill the 1099-S, and you will not need to report the home sale on your income tax return.

Those who do not qualify to be excluded from paying tax on the profit gained from selling their home must pay capital gain taxes. The gain on the sale of the home must be calculated by determining the home's adjusted basis. The adjusted basis is how much you have invested in your home, including the original cost plus the cost of any improvements, minus a few things you already claimed on past taxes. The deductions include any depreciation, losses, or energy credits claimed on the home on prior year taxes. Additional rules apply to those who have inherited a home, divorced, postponed gains, or converted a second home to a primary residence. To accurately calculate your capital gain, contact a tax professional. For a comprehensive guide to tax information for homeowners, see IRS publication 530 (https://www.irs.gov/publications/p530).

Benefits for First-Time Homebuyers

In addition to deductions and credits for homeowners, the IRS provides some tax relief for those buying a home, specifically first-time homebuyers. A first-time homebuyer is someone who has never owned a home. However, for benefit purposes, the IRS defines a first-time homebuyer as someone who has not owned a home within the last two years. The IRS allows first-time homebuyers to use up to $10,000 from their Roth or traditional individual retirement account (IRA) toward the cost of buying a home. There is a lifetime maximum withdrawal of $10,000 per individual. But a couple could each withdraw $10,000 for a total of $20,000 for a home purchase. And the homebuyer will not have to pay the usual 10 percent early withdrawal penalty. The money must be used within 120 days of the date of withdrawal from the IRA account.

IRS publication 590-B details distributions from individual retirement arrangements. The publication can be found at https://www.irs.gov/forms-pubs/about-publication-590-b.

Members of the armed forces who are on active duty and receive a military order for a permanent change of station may deduct moving expenses. This is the only group for which moving expenses are deductible. IRS form 3903 explains the deduction in detail; it is available at https://www.irs.gov/pub/irs-pdf/i3903.pdf.

The US Department of Housing and Urban Development (HUD) also expands the definition of the first-time homebuyer to include anyone who meets these requirements:

- Hasn't owned a principal residence in the past three years
- Owned a home that did not meet state or local building code compliance.
- Owned a permanent residence that is not affixed to a permanent foundation
- Is a single parent who previously owned a home with a spouse while married
- Is a displaced homeowner who previously owned a home with a spouse

The expanded definition of first-time homebuyer means that many more people may take advantage of first-time buyer perks and make their dream of owning a home a reality. Several loan products, grants, and resources may be available including FHA loans, USDA loans, VA loans, Fannie Mae programs, Freddie Mac programs, Native American Direct Loan, and Energy-Efficient Mortgages. Requirements will vary by program. For example, FHA loans do not have a minimum or maximum income requirement, but the USDA loan has a maximum income limit of $91,900 to $121,300 based on family size. Your real estate agent, broker, or mortgage lender may not inform you about these programs or they may not be familiar with the programs themselves. Before buying a home, start the search process by learning more about funds or programs that could assist with a down payment, closing costs, or loans. To learn more about available assistance programs and homeownership vouchers, down payment assistance, housing counseling, and HUD homes for sale in Alabama visit HUD Homeownership: Alabama at www.hud.gov/states/alabama/homeownership.

Tax Preparation Assistance

Many organizations partner with the IRS to offer free tax preparation assistance through the Volunteer Income Tax Assistance (VITA) program and the Tax Counseling for the Elderly (TCE) program. TCE provides free tax help to people 60 and older, and VITA offers tax help to individuals who make $54,000 or less, have a disability, have limited English language proficiency, or are senior citizens. Both programs use trained volunteers to assist people with tax preparation. For a complete list of programs offering VITA and TCE in your area, see www.irs.treasury.gov/freetaxprep/.

The IRS also offers free in-person tax assistance with an IRS representative and employee. This service is available on the second Saturday of every month through May 2022. For locations in Alabama, go to www.irs.gov/saturdayhours or scan the IRS code:

In addition, some agencies offer other tax resources, free or low-cost options for individuals who may not qualify for VITA or TCE. Affordable tax preparation services and resources in Alabama include the following:

- United Way
  (1-888) 421-1266 or dial 2-1-1
  www.myfreetaxes.com
- AARP Foundation Tax-Aide Online Tax Assistance
  www.taxaideqa.aarp.org/hc/en-us
- Impact America
  601 Beacon Parkway W, Suite 102
  Birmingham, AL 35209
  (205) 202-4780
  www.impactamerica.com/freetaxprep
- Alabama Asset Building Coalition
  www.alabamaabc.org/irs-vita-grant-program
- Turbo Tax
  www.turbotax.intuit.com/personal-taxes/online/free-edition.jsp
- H&R Block
  www.hrblock.com/online-tax-filing/free-online-tax-filing
- TaxAct
  https://www.taxact.com/ffa/free-file
- TaxSlayer
  https://www.taxslayer.com/products/taxslayer-free-tax-filing

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