

2024 Tax Deductions & Credits for Homeowners

► Being a homeowner can be a significant benefit during tax time. When you own a home, you may make monthly mortgage payments on your home each month. Each payment includes mortgage interest and principal. The Internal Revenue Service (IRS) allows you to deduct some of these expenses on your annual tax return. You may be able to deduct home mortgage interest, property tax, loan points, or loan origination fees. In addition, if you have mortgages to buy, build, or substantially improve your home, those things may also be deductible.

Benefits for First-Time Homebuyers

The Internal Revenue Service (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 this tax benefit, the IRS defines a first-time homebuyer as someone who has not owned a home within the last two years. That means even if you sold a home 3 years ago, you might qualify for a first-time homeowner tax benefit.

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. However, a couple could each withdraw \$10,000 for a total of \$20,000 toward a home purchase. The best part is that the homebuyer will not have to pay the 10% early withdrawal penalty on the IRA. The money must be used within 120 days of the date of withdrawal from the IRA account. The detailed information can be found at www.irs.gov/forms-pubs/about-publication-590-b.

Benefits for Military Members

Members of the armed forces on active duty and receiving 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/forms-pubs/about-form-3903>

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. This document details how much you have paid in mortgage interest and points during the



past year. The mortgage interest is the money you paid to borrow money. Points are a fee you pay upfront to reduce your interest rate when you take out a mortgage. Homeowners can itemize (list all eligible expenses) their federal taxes to take advantage of mortgage interest deductions.

Generally, the mortgage interest deduction is the single largest deduction for many Americans who itemize their taxes. Visit the IRS Home Mortgage Interest Deduction web page (www.irs.gov/publications/p936) to learn more.

Property Tax

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” (www.revenue.alabama.gov/property-tax/homestead-exemptions/).

Your homestead is your primary residence, and you can get a tax benefit just for owning and living in that property. A homestead exemption reduces the property

taxes paid on a primary residence. Many people pay state, city, and sometimes county taxes. Exemptions are available for state, city, and county taxes and vary by municipality. For people of a certain age or who have a disability, homestead exemptions may be of greater value. To apply for your homestead exemption, contact your local tax assessor's office. There are usually deadlines by which you must apply each year.

Loan Points or Origination Fees

Most people pay some 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 fees include an origination fee, maximum loan charges, discount points, or loan discounts. Both fees and points are tax deductible. They are reported to you on Form 1098, which is provided annually by the mortgage lender. More information can be found here on the IRS website at www.irs.gov/taxtopics/tc505.

Benefits for Selling a Home (Section 121)

For most people who sell a home, the profit from the sale is tax-free. But some rules apply. To be excluded from tax and keep 100 percent of the money tax-free, you must have owned and used the home as a principal residence for 2 of the 5 years immediately before the home's date of sale. Those 2 years do not have to be consecutive or continuous. For example, for a home sold in late 2025, you could have lived in the property for only half the year during 2025, 2024, 2023, and 2022.

There are a few exceptions that allow sellers who do not meet the minimum 2-year requirements to still qualify for a partial exclusion:

- Rented out the home for any period of time
- Change of employment
- Health reasons
- Unforeseen circumstances

Eligibility depends on the profit made from the sale of the property. To keep the full amount, the profit must be less than the following:

- \$250,000 if you are single or file separately
- \$500,000 for married couples who file jointly

If you are considering selling a home, contact a tax professional about the details of your specific situation.

If you think you meet the requirements to be excluded from paying tax on home sale profit, tell your mortgage broker and mortgage company when you are closing on the sale of your home. You have until before February 15 of the year after the home sale to qualify. If the broker or mortgage company agrees that you meet the exclusion requirement, they will not file the IRS Form 1099-S: Proceeds from Real Estate Transactions (www.irs.gov/forms-pubs/about-form-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 tax**. The gain on the home sale 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.

Whether you are buying a home for the first time, a homeowner looking to reduce property taxes, or trying to keep more money from selling your home, there are potential tax benefits that may apply to your situation. Understanding the homeowner taxes and deductions can make owning a home even more rewarding. Seek professional tax help to confidently take advantage of all your tax opportunities.

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



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For more information, contact your county Extension office. Visit www.aces.edu/directory.

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