YOUR HOME, YOUR TAX SHELTER

The tax advantages of owning your own home.

Owning your own home is part of the American dream. For many, it's a sign that you've made it—it's yours, an investment and a sign of who you are. Owning a home also brings more responsibilities—the maintenance, the plumbing, the yard work, not to mention the longer 1040 form. But rejoice. During tax time, owning a home can really pay off if you make the effort to itemize your deductions. Just think of your home as your own private tax shelter. Below are some of the many ways your home can keep you covered.

Mortgage interest.
This is the big one. As a homeowner, you get to write off all the interest on your mortgage payment. And since most of your payment goes to interest, you can deduct quite a bit. However, your deduction may be limited if your mortgage is valued at more than $1,000,000.

Points paid.
If you refinanced during the tax year, you may be able to write off the points you paid on the new loan over the life of the loan. Likewise, the points you paid to get a lower interest rate on a home purchase are also deductible.

Capital gains.
If you're married and sell your home, you can exclude up to $500,000 (up to $250,000 if you're unmarried) of the profits of the sale if you lived there for at least two out of the last five years.

Home improvements.
Keep your receipts and records for home improvements. While in most cases these cannot be deducted each year, they can be used to reduce your taxable gain when you eventually sell your home.

Real estate and property taxes.
You're allowed to deduct the cost of real estate and property taxes against your income.

Home office.
If you meet all of the requirements, you may be able to write off the costs of maintaining your home office, as well as indirect expenses such as utilities and garbage pickup that are related to working out of your home.

Moving expenses.
If you've found a new job that requires you to move, you may also receive additional tax benefits. If the distance is greater than 50 miles, you may be able to write off the cost of the move.

Health at home.
Perhaps you replaced your bathtub with a walk-in shower for an elderly family member who requires a walker to get around. Or you had to widen doors to accommodate a wheelchair. You may be able to write off a portion of these expenses.

Check with a tax professional.
The most important thing to keep in mind when itemizing deductions is that the IRS follows very strict guidelines. If you have any questions, check with your tax professional to make sure you have documented all necessary costs.

So when can you write off a home office?

If you own a home business and do your work on the kitchen table, sorry, you probably can't take any deductions. The IRS is very specific as to what constitutes a home office. There are three words to remember: exclusive, regular and principal.

Exclusive.
The part of your home used for business must be used exclusively for business. Example: You run a home business from a spare bedroom. And you also email your PTA committee, share the office space with a spouse and sometimes catch up on your favorite show from that bedroom. Because the room isn't used exclusively for business, you won't be able to write it off.

Regular.
The part of your home used for business must be used on a regular basis. Example: You rent an office or studio downtown. Once in a while you bring home a client to view samples. This does not constitute regular use of the room.

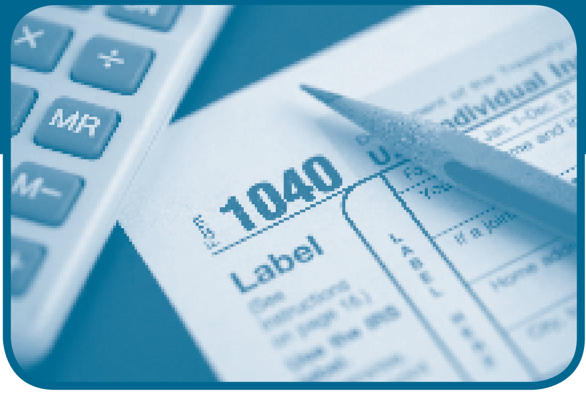
Principal.
Your home office, studio or workshop must be your principal place of business. Example: You have a dog-walking business. But you've dedicated your den just for bookkeeping for your business. You can write off this space even though most of your business occurs at parks and fire hydrants.

OTHER RESOURCES
For more tax tips, go to:

- **H&R Block** www.handrblock.com
- **The IRS** www.irs.gov/pub/irs-pdf/p587.pdf
- **Bankrate.com** www.bankrate.com/brmitax/tips/20010321a.asap

Tax Preparation Checklist

Use this checklist to help you gather your important tax information.



Personal Data

- Social Security Numbers (including spouse and children)
- Childcare provider: Name, address and tax I.D. or Social Security Number
- Alimony paid: Social Security Number

Employment & Income Data

- W-2 forms for this year
- Unemployment compensation: Form 1099-G
- Miscellaneous income including rent: Form 1099-MISC
- Partnership, S Corporation and trust income: Schedule K-1
- Pensions and annuities: Form 1099-R
- Social Security/RR1 benefits: Form RRB-1099
- Alimony received
- Jury duty pay
- Gambling and lottery winnings
- Prizes and awards
- Scholarships and fellowships
- State and local income tax refunds: Form 1099-G

Homeowner/Renter Data

- Residential address(es) for this year
- Mortgage interest: Form 1098
- Sale of your home or other real estate: Form 1099-S
- Second mortgage interest paid
- Real estate taxes paid
- Moving expenses

Financial Assets

- Interest income statements: Form 1099-INT and 1099-OID
- Dividend income statements: Form 1099-DIV
- Proceeds from broker transactions: Form 1099-B
- Retirement plan distribution: Form 1099-R

Financial Liabilities

- Auto loans and leases (account numbers and car value) if vehicle used for business
- Student loan interest paid
- Early withdrawal penalties on CDs and other time deposits

Automobiles

- Personal property tax information

Expenses

- Gifts to charity (qualified written statement from charity for any single donations of $250 or more)
- Unreimbursed expenses related to volunteer work
- Unreimbursed expenses related to your job (e.g., travel expenses, uniforms, union dues and subscriptions)
- Investment expenses
- Job-hunting expenses
- Job-related education expenses
- Childcare expenses
- Medical savings accounts
- Adoption expenses
- Alimony paid
- Tax return preparation fees and expenses

Self-Employment Data

- Business income: Form 1099-MISC and/or own records
- Partnership SE income: Schedule K-1
- Business-related expenses: Receipts, other documents and own records
- Farm-related expenses: Receipts, other documents and own records
- Employment taxes and other business taxes paid for current year: Payment records

Miscellaneous Tax Documents

- Federal, state and local estimated income paid for current year: Estimated tax vouchers, cancelled checks and other payment records
- IRA, Keogh and other retirement plan contributions: If self-employed, identify as for self or employees
- Records to document medical expenses
- Records to document casualty or theft losses
- Records for any other expenditures that may be deductible
- Records for any other revenue or sales of property that may be taxable or reportable