

Tax Advantages of Buying a Home

When you buy a home and make a mortgage payment, under present tax law, part of the payment is tax deductible. Depending on the tax bracket you are in, this tax deduction can lower the income taxes you owe. (Consult with a tax professional for your individual tax advantages.)

Monthly mortgage payments in a loan are typically made up of the following components:

Principal (P): This part of the monthly payment goes towards paying off the sum loaned to purchase the home.

Interest (I): This amount is determined by the amount borrowed and the interest rate.

Taxes (T): This part of your payment is the amount that will be due on the home's property taxes. The lender holds this in an escrow account (see Closing Costs) and will make the property tax payment when it is due.

Insurance (I): The home insurance payment is the final component in monthly mortgage payment. Like property taxes, the insurance payment is held in an escrow account and the insurance payment premium is paid when due.

The mortgage payment is often referred to as "P, I, T, I" or PITI. The two components of a mortgage payment that are tax deductible are interest and taxes.

The following example illustrates the tax advantage of home ownership.

Loan amount: \$300,000 Interest rate: 4.5% fixed Loan term: 30 years
PI payment = \$1520.

Monthly taxes = \$150 (Annual taxes = \$1800)
Insurance payment = \$50 (Insurance policy annual premium = \$600)
This makes your total PITI payment = \$1720.

You can use this [amortization calculator](#) to see that in the first month, interest is \$1125 and in the first 12 months, the total interest paid is \$13,401.

If all these payments were made in the same calendar year, your tax deduction for that year would be \$15,201 (interest + property taxes). A tax professional would calculate your individual tax savings, but if you were in a 25% tax bracket, you would save \$3800 in taxes that year. Note: this is an example only and should not be construed as tax advice.

Have questions? [Call or email](#). We are happy to help.

Mark D. Terry | Broker/Owner | The Real Estate Firm

303-521-8008 | markterry@realestatefirm.com