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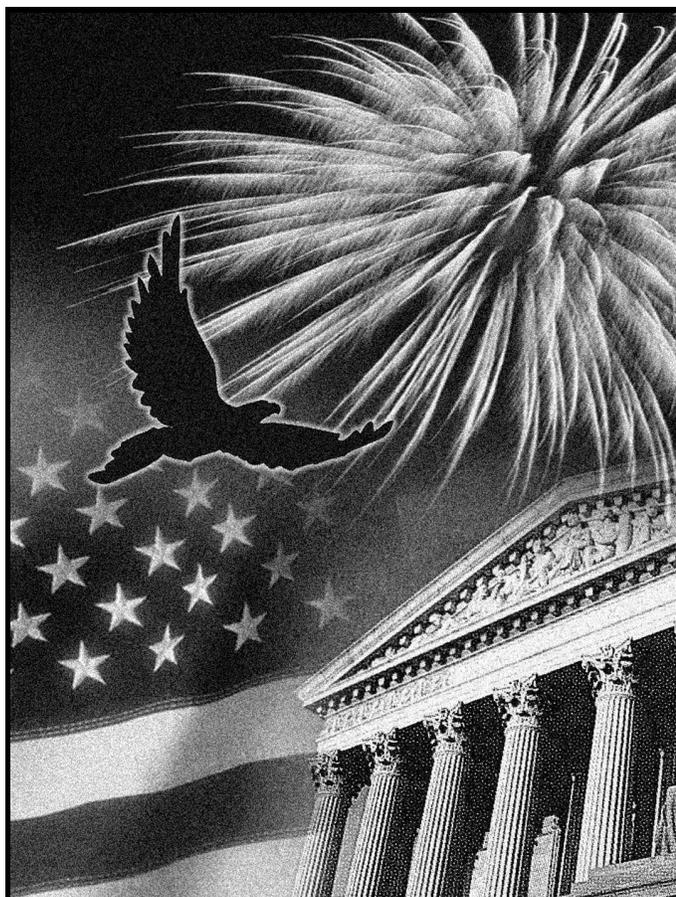
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Service

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Tax Information for Homeowners

For use in preparing
2010 Returns



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What's New

Basis of inherited property. The rules used in determining basis in property you inherited from someone who died in 2010 have changed. See *Inheritance*, later under *Basis*.

Itemized deductions phaseout ended. For 2010, taxpayers with adjusted gross income above a certain amount will no longer lose part of their deduction for itemized deductions.

Expiration of increased standard deduction for real estate taxes. The increased standard deduction for real estate taxes has expired and is not available for 2010 or later years.

Reminders

Home Affordable Modification Program (HAMP). If you benefit from Pay-for-Performance Success Payments, the payments are not taxable under HAMP.

Mortgage debt forgiveness. You can exclude from gross income any discharges of qualified principal residence indebtedness made after 2006 and before 2013. You must reduce the basis of your principal residence (but not below zero) by the amount you exclude. See *Discharges of qualified principal residence indebtedness*, later, and Form 982, *Reduction of Tax Attributes Due to Discharge of Indebtedness* (and Section 1082 Basis Adjustment), for more information.

Repayment of first-time homebuyer credit. You generally must repay any credit you claimed for a home you bought if you disposed of the home or it ceased to be your main home in 2010. If you bought the home in 2008 and you owned and used it as your main home for all of 2010, you generally must begin repaying the credit with your 2010 tax return. See Form 5405 and its instructions for details.

Photographs of missing children. The Internal Revenue Service is a proud partner with the National Center for Missing and Exploited Children. Photographs of missing children selected by the Center may appear in this publication on pages that would otherwise be blank. You can help bring these children home by looking at the photographs and calling 1-800-THE-LOST (1-800-843-5678) if you recognize a child.

Introduction

This publication provides tax information for homeowners. Your home may be a house, condominium, cooperative apartment, mobile home, houseboat, or house trailer.

The following topics are explained.

- How you treat items such as settlement and closing costs, real estate taxes, sales taxes, home mortgage interest, and repairs.
- What you can and cannot deduct on your tax return.
- The first-time homebuyer credit.
- The tax credit you can claim if you received a mortgage credit certificate when you bought your home.
- Why you should keep track of adjustments to the basis of your home. (Your home's basis generally is what it cost; adjustments include the cost of any improvements you might make.)
- What records you should keep as proof of the basis and adjusted basis.

Comments and suggestions. We welcome your comments about this publication and your suggestions for future editions.

You can write to us at the following address:

Internal Revenue Service
Individual Forms and Publications Branch
SE:W:CAR:MP:T:I
1111 Constitution Ave. NW, IR-6526
Washington, DC 20224

We respond to many letters by telephone. Therefore, it would be helpful if you would include your daytime phone number, including the area code, in your correspondence.

You can email us at taxforms@irs.gov. (The asterisk must be included in the address.) Please put "Publications Comment" on the subject line. You can also send us comments from www.irs.gov/formspubs/, select "Comment on Tax Forms and Publications" under "Information about."

Although we cannot respond individually to each comment received, we do appreciate your feedback and will consider your comments as we revise our tax products.

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Tax questions. If you have a tax question, check the information available on IRS.gov or call 1-800-829-1040. We cannot answer tax questions sent to either of the above addresses.

Useful Items

You may want to see:

Publication

- 523** Selling Your Home
- 527** Residential Rental Property
- 547** Casualties, Disasters, and Thefts
- 551** Basis of Assets
- 555** Community Property
- 587** Business Use of Your Home
- 936** Home Mortgage Interest Deduction

Form (and Instructions)

- 5405** First-Time Homebuyer Credit and Repayment of the Credit
- 8396** Mortgage Interest Credit

See *How To Get Tax Help*, near the end of this publication, for information about getting publications and forms.

What You Can and Cannot Deduct

To deduct expenses of owning a home, you must file Form 1040 and itemize your deductions on Schedule A (Form 1040). If you itemize, you cannot take the standard deduction.

This section explains what expenses you can deduct as a homeowner. It also points out expenses that you cannot deduct. There are four primary discussions: real estate taxes, sales taxes, home mortgage interest, and mortgage insurance premiums. Generally, your real estate taxes, home mortgage interest, and mortgage insurance premiums are included in your house payment.

Your house payment. If you took out a mortgage (loan) to finance the purchase of your home, you probably have to make monthly house payments. Your house payment may include several costs of owning a home. The only costs you can deduct are real estate taxes actually paid to the taxing authority, interest that qualifies as home mortgage interest, and mortgage insurance premiums. These are discussed in more detail later.

Some nondeductible expenses that may be included in your house payment include:

- Fire or homeowner's insurance premiums, and
- The amount applied to reduce the principal of the mortgage.

Minister's or military housing allowance. If you are a minister or a member of the uniformed services and receive a housing allowance that is not taxable, you still can deduct your real estate taxes and your home mortgage interest. You do not have to reduce your deductions by your nontaxable allowance.

Nondeductible payments. You cannot deduct any of the following items.

- Insurance (other than mortgage insurance premiums), including fire and comprehensive coverage, and title insurance.
- Wages you pay for domestic help.
- Depreciation.
- The cost of utilities, such as gas, electricity, or water.
- Most settlement costs. See *Settlement or closing costs* under *Cost as Basis*, later, for more information.
- Forfeited deposits, down payments, or earnest money.

Real Estate Taxes

Most state and local governments charge an annual tax on the value of real property. This is called a real estate tax. You can deduct the tax if it is based on the assessed value of the real property and the taxing authority charges a uniform rate on all property in its jurisdiction. The tax must be for the welfare of the general public and not be a payment for a special privilege granted or service rendered to you.

Deductible Real Estate Taxes

You can deduct real estate taxes imposed on you. You must have paid them either at settlement or closing, or to a taxing authority (either directly or through an escrow account) during the year. If you own a cooperative apartment, see *Special Rules for Cooperatives*, later.

Where to deduct real estate taxes. Enter the amount of your deductible real estate taxes on Schedule A (Form 1040), line 6.

Real estate taxes paid at settlement or closing. Real estate taxes are generally divided so that you and the seller each pay taxes for the part of the property tax year you owned the home. Your share of these taxes is fully deductible if you itemize your deductions.

Division of real estate taxes. For federal income tax purposes, the seller is treated as paying the property taxes up to, but not including, the date of sale. You (the buyer) are treated as paying the taxes beginning with the date of sale. This applies regardless of the lien dates under local law. Generally, this information is included on the settlement statement you get at closing.

You and the seller each are considered to have paid your own share of the taxes, even if one or the other paid the entire amount. You each can deduct your own share, if you itemize deductions, for the year the property is sold.

Example. You bought your home on September 1. The property tax year (the period to which the tax relates) in your area is the calendar year. The tax for the year was \$730 and was due and paid by the seller on August 15.

You owned your new home during the property tax year for 122 days (September 1 to December 31, including your date of purchase). You figure your deduction for real estate taxes on your home as follows.

1. Enter the total real estate taxes for the real property tax year \$730
2. Enter the number of days in the property tax year that you owned the property 122
3. Divide line 2 by 3653342
4. Multiply line 1 by line 3. This is your deduction. Enter it on Schedule A (Form 1040), line 6 \$244

You can deduct \$244 on your return for the year if you itemize your deductions. You are considered to have paid this amount and can deduct it on your return even if, under the contract, you did not have to reimburse the seller.

Delinquent taxes. Delinquent taxes are unpaid taxes that were imposed on the seller for an earlier tax year. If you agree to pay delinquent taxes when you buy your home, you cannot deduct them. You treat them as part of the cost of your home. See *Real estate taxes*, later, under *Basis*.

Escrow accounts. Many monthly house payments include an amount placed in escrow (put in the care of a third party) for real estate taxes. You may not be able to deduct the total you pay into the escrow account. You can deduct only the real estate taxes that the lender actually paid from escrow to the taxing authority. Your real estate tax bill will show this amount.

Refund or rebate of real estate taxes. If you receive a refund or rebate of real estate taxes this year for amounts you paid this year, you must reduce your real estate tax deduction by the amount refunded to you. If the refund or rebate was for real estate taxes paid for a prior year, you may have to include some or all of the refund in your income. For more information, see *Recoveries* in Publication 525, *Taxable and Nontaxable Income*.

Items You Cannot Deduct as Real Estate Taxes

The following items are not deductible as real estate taxes.

Charges for services. An itemized charge for services to specific property or people is not a tax, even if the charge is paid to the taxing authority. You cannot deduct the charge as a real estate tax if it is:

- A unit fee for the delivery of a service (such as a \$5 fee charged for every 1,000 gallons of water you use),
- A periodic charge for a residential service (such as a \$20 per month or \$240 annual fee charged for trash collection), or
- A flat fee charged for a single service provided by your local government (such as a \$30 charge for mowing your lawn because it had grown higher than permitted under a local ordinance).



You must look at your real estate tax bill to decide if any nondeductible itemized charges, such as those listed above, are included in the bill. If your taxing authority (or lender) does not furnish you a copy of your real estate tax bill, ask for it. Contact the taxing authority if you need additional information about a specific charge on your real estate tax bill.

Assessments for local benefits. You cannot deduct amounts you pay for local benefits that tend to increase the value of your property. Local benefits include the construction of streets, sidewalks, or water and sewer systems. You must add these amounts to the basis of your property.

You can, however, deduct assessments (or taxes) for local benefits if they are for maintenance, repair, or interest charges related to those benefits. An example is a charge to repair an existing sidewalk and any interest included in that charge.

If only a part of the assessment is for maintenance, repair, or interest charges, you must be able to show the amount of that part to claim the deduction. If you cannot show what part of the assessment is for maintenance, repair, or interest charges, you cannot deduct any of it.

An assessment for a local benefit may be listed as an item in your real estate tax bill. If so, use the rules in this section to find how much of it, if any, you can deduct.

Transfer taxes (or stamp taxes). You cannot deduct transfer taxes and similar taxes and charges on the sale of a personal home. If you are the buyer and you pay them, include them in the cost basis of the property. If you are the seller and you pay them, they are expenses of the sale and reduce the amount realized on the sale.

Homeowners association assessments. You cannot deduct these assessments because the homeowners association, rather than a state or local government, imposes them.

Special Rules for Cooperatives

If you own a cooperative apartment, some special rules apply to you, though you generally receive the same tax treatment as other homeowners. As an owner of a cooperative apartment, you own shares of stock in a corporation that owns or leases housing facilities. You can deduct your share of the corporation's deductible real estate taxes if the cooperative housing corporation meets the following conditions:

1. The corporation has only one class of stock outstanding,
2. Each stockholder, solely because of ownership of the stock, can live in a house, apartment, or house trailer owned or leased by the corporation,
3. No stockholder can receive any distribution out of capital, except on a partial or complete liquidation of the corporation, and
4. At least one of the following:
 - a. At least 80% of the corporation's gross income for the tax year was paid by the tenant-stockholders. For this purpose, gross income means all income received during the entire tax year, including any received before the corporation changed to cooperative ownership.
 - b. At least 80% of the total square footage of the corporation's property must be available for use by the tenant-stockholders during the entire tax year.
 - c. At least 90% of the expenditures paid or incurred by the corporation were used

for the acquisition, construction, management, maintenance, or care of the property for the benefit of the tenant-shareholders during the entire tax year.

Tenant-stockholders. A tenant-stockholder can be any entity (such as a corporation, trust, estate, partnership, or association) as well as an individual. The tenant-stockholder does not have to live in any of the cooperative's dwelling units. The units that the tenant-stockholder has the right to occupy can be rented to others.

Deductible taxes. You figure your share of real estate taxes in the following way.

1. Divide the number of your shares of stock by the total number of shares outstanding, including any shares held by the corporation.
2. Multiply the corporation's deductible real estate taxes by the number you figured in (1). This is your share of the real estate taxes.

Generally, the corporation will tell you your share of its real estate tax. This is the amount you can deduct if it reasonably reflects the cost of real estate taxes for your dwelling unit.

Refund of real estate taxes. If the corporation receives a refund of real estate taxes it paid in an earlier year, it must reduce the amount of real estate taxes paid this year when it allocates the tax expense to you. Your deduction for real estate taxes the corporation paid this year is reduced by your share of the refund the corporation received.

Sales Taxes

Generally, you can elect to deduct state and local general sales taxes instead of state and local income taxes as an itemized deduction on Schedule A (Form 1040). Deductible sales taxes may include sales taxes paid on your home (including mobile and prefabricated), or home building materials if the tax rate was the same as the general sales tax rate. For information on figuring your deduction, see the Instructions for Schedule A (Form 1040).



If you elect to deduct the sales taxes paid on your home, or home building materials, you cannot include them as part of your cost basis in the home.

Home Mortgage Interest

This section of the publication gives you basic information about home mortgage interest, including information on interest paid at settlement, points, and Form 1098, *Mortgage Interest Statement*.

Most home buyers take out a mortgage (loan) to buy their home. They then make monthly payments to either the mortgage holder or someone collecting the payments for the mortgage holder.

Usually, you can deduct the entire part of your payment that is for mortgage interest, if you itemize your deductions on Schedule A (Form 1040). However, your deduction may be limited if:

- Your total mortgage balance is more than \$1 million (\$500,000 if married filing separately), or
- You took out a mortgage for reasons other than to buy, build, or improve your home.

If either of these situations applies to you, you will need to get Publication 936. You also may need Publication 936 if you later refinance your mortgage or buy a second home.

Refund of home mortgage interest. If you receive a refund of home mortgage interest that you deducted in an earlier year and that reduced your tax, you generally must include the refund in income in the year you receive it. For more information, see *Recoveries* in Publication 525. The amount of the refund will usually be shown on the mortgage interest statement you receive from your mortgage lender. See *Mortgage Interest Statement*, later.

Deductible Mortgage Interest

To be deductible, the interest you pay must be on a loan secured by your main home or a second home. The loan can be a first or second mortgage, a home improvement loan, or a home equity loan.

Prepaid interest. If you pay interest in advance for a period that goes beyond the end of the tax year, you must spread this interest over the tax years to which it applies. Generally, you can deduct in each year only the interest that qualifies as home mortgage interest for that year. An exception applies to points, which are discussed later.

Late payment charge on mortgage payment. You can deduct as home mortgage interest a late payment charge if it was not for a specific service in connection with your mortgage loan.

Mortgage prepayment penalty. If you pay off your home mortgage early, you may have to pay a penalty. You can deduct that penalty as home mortgage interest provided the penalty is not for a specific service performed or cost incurred in connection with your mortgage loan.

Ground rent. In some states (such as Maryland), you may buy your home subject to a ground rent. A ground rent is an obligation you assume to pay a fixed amount per year on the property. Under this arrangement, you are leasing (rather than buying) the land on which your home is located.

Redeemable ground rents. If you make annual or periodic rental payments on a redeemable ground rent, you can deduct the payments as mortgage interest. The ground rent is a redeemable ground rent only if all of the following are true.

- Your lease, including renewal periods, is for more than 15 years.
- You can freely assign the lease.
- You have a present or future right (under state or local law) to end the lease and buy the lessor's entire interest in the land by paying a specified amount.
- The lessor's interest in the land is primarily a security interest to protect the rental payments to which he or she is entitled.

Payments made to end the lease and buy the lessor's entire interest in the land are not redeemable ground rents. You cannot deduct them.

Nonredeemable ground rents. Payments on a nonredeemable ground rent are not mortgage interest. You can deduct them as rent only if they are a business expense or if they are for rental property.

Cooperative apartment. You can usually treat the interest on a loan you took out to buy stock in a cooperative housing corporation as home mortgage interest if you own a cooperative apartment and the cooperative housing corporation meets the conditions described earlier under *Special Rules for Cooperatives*. In addition, you can treat as home mortgage interest your share of the corporation's deductible mortgage interest. Figure your share of mortgage interest the same way that is shown for figuring your share of real estate taxes in the *Example* under *Division of real estate taxes*, earlier. For more information on cooperatives, see *Special Rule for Tenant-Stockholders in Cooperative Housing Corporations* in Publication 936.

Refund of cooperative's mortgage interest. You must reduce your mortgage interest deduction by your share of any cash portion of a patronage dividend that the cooperative receives. The patronage dividend is a partial refund to the cooperative housing corporation of mortgage interest it paid in a prior year.

If you receive a Form 1098 from the cooperative housing corporation, the form should show only the amount you can deduct.

Mortgage Interest Paid at Settlement

One item that normally appears on a settlement or closing statement is home mortgage interest.

You can deduct the interest that you pay at settlement if you itemize your deductions on Schedule A (Form 1040). This amount should be included in the mortgage interest statement provided by your lender. See the discussion under *Mortgage Interest Statement*, later. Also, if you pay interest in advance, see *Prepaid interest*, earlier, and *Points*, next.

Points

The term "points" is used to describe certain charges paid, or treated as paid, by a borrower to obtain a home mortgage. Points also may be called loan origination fees, maximum loan charges, loan discount, or discount points.

A borrower is treated as paying any points that a home seller pays for the borrower's mortgage. See *Points paid by the seller*, later.

General rule. You cannot deduct the full amount of points in the year paid. They are prepaid interest, so you generally must deduct them over the life (term) of the mortgage.

Exception. You can deduct the full amount of points in the year paid if you meet all the following tests.

1. Your loan is secured by your main home. (Generally, your main home is the one you live in most of the time.)

2. Paying points is an established business practice in the area where the loan was made.
3. The points paid were not more than the points generally charged in that area.
4. You use the cash method of accounting. This means you report income in the year you receive it and deduct expenses in the year you pay them. Most individuals use this method.
5. The points were not paid in place of amounts that ordinarily are stated separately on the settlement statement, such as appraisal fees, inspection fees, title fees, attorney fees, and property taxes.
6. The funds you provided at or before closing, plus any points the seller paid, were at least as much as the points charged. The funds you provided do not have to have been applied to the points. They can include a down payment, an escrow deposit, earnest money, and other funds you paid at or before closing for any purpose. You cannot have borrowed these funds from your lender or mortgage broker.
7. You use your loan to buy or build your main home.
8. The points were computed as a percentage of the principal amount of the mortgage.
9. The amount is clearly shown on the settlement statement (such as the Uniform Settlement Statement, Form HUD-1) as points charged for the mortgage. The points may be shown as paid from either your funds or the seller's.

Note. If you meet all of the tests listed above and you itemize your deductions in the year you get the loan, you can either deduct the full amount of points in the year paid or deduct them over the life of the loan, beginning in the year you get the loan. If you do not itemize your deductions in the year you get the loan, you can spread the points over the life of the loan and deduct the appropriate amount in each future year, if any, when you do itemize your deductions.

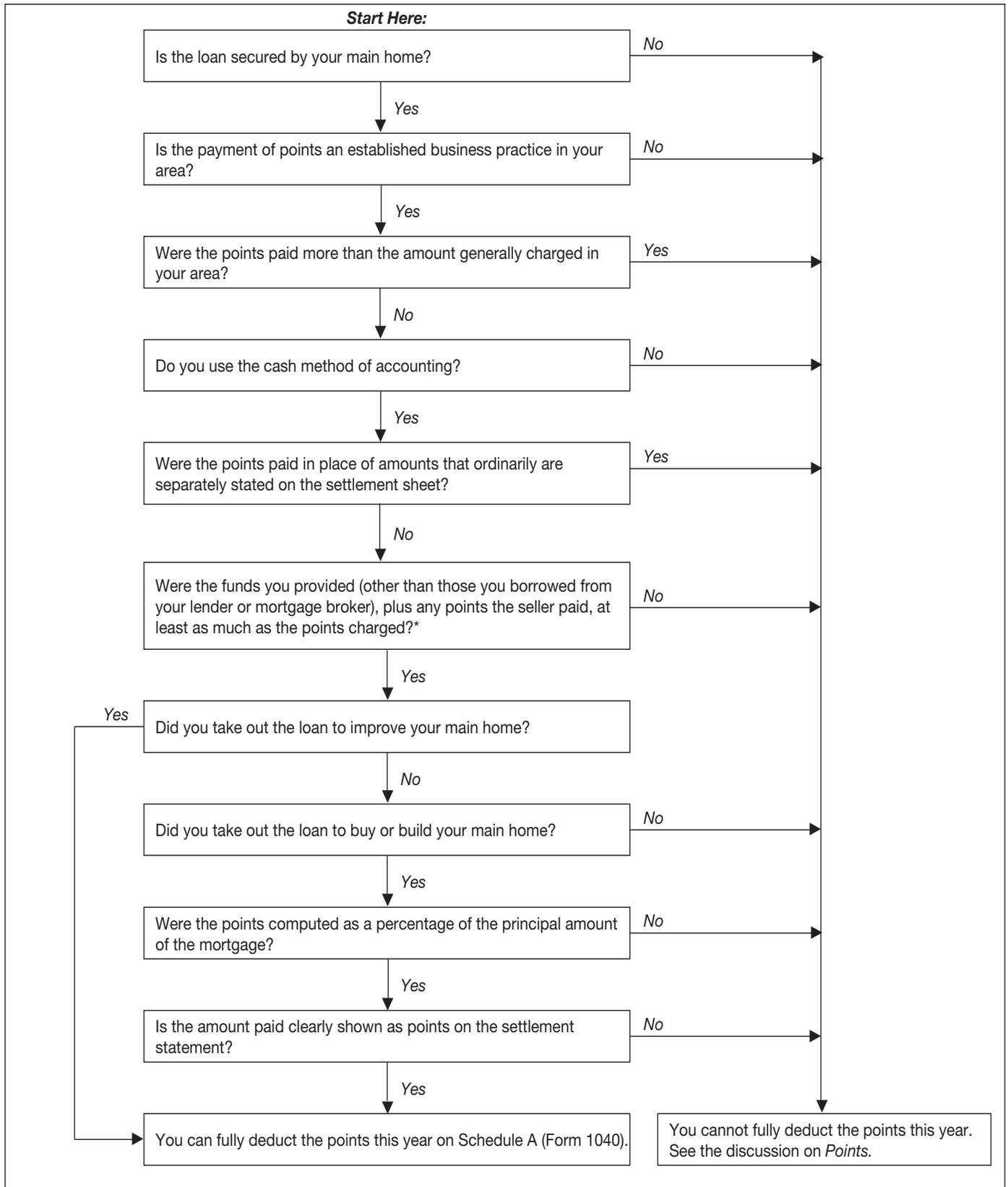
Home improvement loan. You can also fully deduct in the year paid points paid on a loan to improve your main home, if you meet the first six tests listed earlier.

Refinanced loan. If you use part of the refinanced mortgage proceeds to improve your main home and you meet the first six tests listed earlier, you can fully deduct the part of the points related to the improvement in the year you paid them with your own funds. You can deduct the rest of the points over the life of the loan.

Points not fully deductible in year paid. If you do not qualify under the exception to deduct the full amount of points in the year paid (or choose not to do so), see *Points* in Publication 936 for the rules on when and how much you can deduct.

Figure A. You can use Figure A as a quick guide to see whether your points are fully deductible in the year paid.

Figure A. Are My Points Fully Deductible This Year?



* The funds you provided do not have to have been applied to the points. They can include a down payment, an escrow deposit, earnest money, and other funds you paid at or before closing for any purpose.

Amounts charged for services. Amounts charged by the lender for specific services connected to the loan are not interest. Examples of these charges are:

- Appraisal fees,
- Notary fees, and
- Preparation costs for the mortgage note or deed of trust.

You cannot deduct these amounts as points either in the year paid or over the life of the mortgage. For information about the tax treatment of these amounts and other settlement fees and closing costs, see *Basis*, later.

Points paid by the seller. The term “points” includes loan placement fees that the seller pays to the lender to arrange financing for the buyer.

Treatment by seller. The seller cannot deduct these fees as interest; but, they are a selling expense that reduces the seller’s amount realized. See Publication 523 for more information.

Treatment by buyer. The buyer treats seller-paid points as if he or she had paid them. If all the tests listed earlier under *Exception* are met, the buyer can deduct the points in the year paid. If any of those tests are not met, the buyer must deduct the points over the life of the loan.

The buyer must also reduce the basis of the home by the amount of the seller-paid points. For more information about the basis of your home, see *Basis*, later.

Funds provided are less than points. If you meet all the tests listed earlier under *Exception* except that the funds you provided were less than the points charged to you (test 6), you can deduct the points in the year paid up to the amount of funds you provided. In addition, you can deduct any points paid by the seller.

Example 1. When you took out a \$100,000 mortgage loan to buy your home in December, you were charged one point (\$1,000). You meet all the tests for deducting points in the year paid (see *Exception*, earlier), except the only funds you provided were a \$750 down payment. Of the \$1,000 you were charged for points, you can deduct \$750 in the year paid. You spread the remaining \$250 over the life of the mortgage.

Example 2. The facts are the same as in *Example 1*, except that the person who sold you your home also paid one point (\$1,000) to help you get your mortgage. In the year paid, you can deduct \$1,750 (\$750 of the amount you were charged plus the \$1,000 paid by the seller). You spread the remaining \$250 over the life of the mortgage. You must reduce the basis of your home by the \$1,000 paid by the seller.

Excess points. If you meet all the tests under *Exception*, earlier, except that the points paid were more than are generally charged in your area (test 3), you can deduct in the year paid only the points that are generally charged. You must spread any additional points over the life of the mortgage.

Mortgage ending early. If you spread your deduction for points over the life of the mortgage, you can deduct any remaining balance in the year the mortgage ends. A mortgage may

end early due to a prepayment, refinancing, foreclosure, or similar event.

Example. Dan paid \$3,000 in points in 2003 that he had to spread out over the 15-year life of the mortgage. He had deducted \$1,400 of these points through 2009.

Dan prepaid his mortgage in full in 2010. He can deduct the remaining \$1,600 of points in 2010.

Exception. If you refinance the mortgage with the same lender, you cannot deduct any remaining points for the year. Instead, deduct them over the term of the new loan.

Form 1098. The mortgage interest statement you receive should show not only the total interest paid during the year, but also your deductible points paid during the year. See *Mortgage Interest Statement*, later.

Where To Deduct Home Mortgage Interest

Enter on Schedule A (Form 1040), line 10, the home mortgage interest and points reported to you on Form 1098 (discussed next). If you did not receive a Form 1098, enter your deductible interest on line 11, and any deductible points on line 12. See *Table 1* for a summary of where to deduct home mortgage interest and real estate taxes.

If you paid home mortgage interest to the person from whom you bought your home, show that person’s name, address, and social security number (SSN) or employer identification number (EIN) on the dotted lines next to line 11. The seller must give you this number and you must give the seller your SSN. Form W-9, Request for Taxpayer Identification Number and Certification, can be used for this purpose. Failure to meet either of these requirements may result in a \$50 penalty for each failure.

Mortgage Interest Statement

If you paid \$600 or more of mortgage interest (including certain points and mortgage insurance premiums) during the year on any one mortgage to a mortgage holder in the course of that holder’s trade or business, you should receive a Form 1098 or similar statement from the mortgage holder. The statement will show the total interest paid on your mortgage during the year. If you bought a main home during the year, it also will show the deductible points you paid and any points you can deduct that were paid by the person who sold you your home. See *Points*, earlier.

The interest you paid at settlement should be included on the statement. If it is not, add the interest from the settlement sheet that qualifies as home mortgage interest to the total shown on Form 1098 or similar statement. Put the total on Schedule A (Form 1040), line 10, and attach a statement to your return explaining the difference. Write “See attached” to the right of line 10.

A mortgage holder can be a financial institution, a governmental unit, or a cooperative housing corporation. If a statement comes from a cooperative housing corporation, it generally will show your share of interest.

Your mortgage interest statement for 2010 should be provided or sent to you by January 31, 2011. If it is mailed, you should allow adequate

time to receive it before contacting the mortgage holder. A copy of this form will be sent to the IRS also.

Example. You bought a new home on May 3. You paid no points on the purchase. During the year, you made mortgage payments which included \$4,480 deductible interest on your new home. The settlement sheet for the purchase of the home included interest of \$620 for 29 days in May. The mortgage statement you receive from the lender includes total interest of \$5,100 (\$4,480 + \$620). You can deduct the \$5,100 if you itemize your deductions.

Refund of overpaid interest. If you receive a refund of mortgage interest you overpaid in a prior year, you generally will receive a Form 1098 showing the refund in box 3. Generally, you must include the refund in income in the year you receive it. See *Refund of home mortgage interest*, earlier, under *Home Mortgage Interest*.

More than one borrower. If you and at least one other person (other than your spouse if you file a joint return) were liable for and paid interest on a mortgage that was for your home, and the other person received a Form 1098 showing the interest that was paid during the year, attach a statement to your return explaining this. Show how much of the interest each of you paid, and give the name and address of the person who received the form. Deduct your share of the interest on Schedule A (Form 1040), line 11, and write “See attached” to the right of that line.

Mortgage Insurance Premiums

You may be able to take an itemized deduction on Schedule A (Form 1040), line 13, for premiums you pay or accrue during 2010 for qualified mortgage insurance in connection with home acquisition debt on your qualified home.

Mortgage insurance premiums you paid or accrued on any mortgage insurance contract issued before January 1, 2007, are not deductible as an itemized deduction.

Qualified Mortgage Insurance

Qualified mortgage insurance is mortgage insurance provided by the Veterans Administration, the Federal Housing Administration, or the Rural Housing Administration, and private mortgage insurance (as defined in section 2 of the Homeowners Protection Act of 1998 as in effect on December 20, 2006).

Prepaid mortgage insurance premiums. If you paid premiums that are allocable to periods after 2010, you must allocate them over the shorter of:

- The stated term of the mortgage, or
- 84 months, beginning with the month the insurance was obtained.

The premiums are treated as paid in the year to which they were allocated. If the mortgage is satisfied before its term, no deduction is allowed for the unamortized balance. See Publication 936 for details.

Exception for certain mortgage insurance. The allocation rules, explained above, do not apply to qualified mortgage insurance provided

by the Department of Veterans Affairs or Rural Housing Service.

Home Acquisition Debt

Home acquisition debt is a mortgage you took out after October 13, 1987, to buy, build, or substantially improve a qualified home. It also must be secured by that home.

If the amount of your mortgage is more than the cost of the home plus the cost of any substantial improvements, only the debt that is not more than the cost of the home plus improvements qualifies as home acquisition debt.

Home acquisition debt limit. The total amount you can treat as home acquisition debt at any time on your home cannot be more than \$1 million (\$500,000 if married filing separately).

Discharges of qualified principal residence indebtedness. You can exclude from gross income any discharges of qualified principal residence indebtedness made after 2006 and before 2013. You must reduce the basis of your principal residence (but not below zero) by the amount you exclude.

Principal residence. Your principal residence is the home where you ordinarily live most of the time. You can have only one principal residence at any one time.

Qualified principal residence indebtedness. This is a mortgage that you took out to buy, build, or substantially improve your principal residence and that is secured by that residence. If the amount of your original mortgage is more than the cost of your principal residence plus the cost of substantial improvements, qualified principal residence indebtedness cannot be more than the cost of your principal residence plus improvements.

Any debt secured by your principal residence that you use to refinance qualified principal residence indebtedness is qualified principal residence indebtedness up to the amount of your old mortgage principal just before the refinancing. Additional debt incurred to substantially improve your principal residence is also qualified principal residence indebtedness.

Amount you can exclude. You can only exclude debt discharged after 2006 and before 2013. The most you can exclude is \$2 million (\$1 million if married filing separately). You cannot

exclude any amount that was discharged because of services performed for the lender or on account of any other factor not directly related either to a decline in the value of your residence or to your financial condition.

Ordering rule. If only a part of a loan is qualified principal residence indebtedness, you can exclude only the amount of the discharge that is more than the amount of the loan (immediately before the discharge) that is not qualified principal residence indebtedness.

Qualified Home

This means your main home or your second home. A home includes a house, condominium, cooperative, mobile home, house trailer, boat, or similar property that has sleeping, cooking, and toilet facilities.

Main home. You can have only one main home at any one time. This is the home where you ordinarily live most of the time.

Second home and other special situations. If you have a second home, use part of your home for other than residential living (such as a home office), rent out part of your home, or are having your home constructed, see *Qualified Home* in Publication 936.

Limit on Deduction

If your adjusted gross income (AGI) on Form 1040, line 38, is more than \$100,000 (\$50,000 if your filing status is married filing separately), the amount of your mortgage insurance premiums that are deductible is reduced and may be eliminated. See *Line 13* in the instructions for Schedule A (Form 1040) and complete the *Qualified Mortgage Insurance Premiums Deduction Worksheet* to figure the amount you can deduct. If your AGI is more than \$109,000 (\$54,500 if married filing separately), you cannot deduct your mortgage insurance premiums.

Form 1098. The amount of mortgage insurance premiums you paid during 2010, should be reported in box 4. See *Form 1098, Mortgage Interest Statement* in Publication 936.

Mortgage Interest Credit

The mortgage interest credit is intended to help lower-income individuals afford home ownership. If you qualify, you can claim the credit each year for part of the home mortgage interest you pay.

Who qualifies. You may be eligible for the credit if you were issued a mortgage credit certificate (MCC) from your state or local government. Generally, an MCC is issued only in connection with a new mortgage for the purchase of your main home.

The MCC will show the certificate credit rate you will use to figure your credit. It also will show the certified indebtedness amount. Only the interest on that amount qualifies for the credit. See *Figuring the Credit*, later.

TIP You must contact the appropriate government agency about getting an MCC before you get a mortgage and buy your home. Contact your state or local housing finance agency for information about the availability of MCCs in your area.

How to claim the credit. To claim the credit, complete Form 8396 and attach it to your Form 1040. Include the credit in your total for Form 1040, line 53; be sure to check box c and write "Form 8396" on that line.

Reducing your home mortgage interest deduction. If you itemize your deductions on Schedule A (Form 1040), you must reduce your home mortgage interest deduction by the amount of the mortgage interest credit shown on Form 8396, line 3. You must do this even if part of that amount is to be carried forward to 2011.

Selling your home. If you purchase a home after 1990 using an MCC, and you sell that home within 9 years, you may have to recapture (repay) all or part of the benefit you received from the MCC program. For additional information, see *Recapturing (Paying Back) a Federal Mortgage Subsidy*, in Publication 523.

Figuring the Credit

Figure your credit on Form 8396.

Mortgage not more than certified indebtedness. If your mortgage loan amount is equal to (or smaller than) the certified indebtedness amount shown on your MCC, enter on Form 8396, line 1, all the interest you paid on your mortgage during the year.

Mortgage more than certified indebtedness. If your mortgage loan amount is larger than the certified indebtedness amount shown on your MCC, you can figure the credit on only part of the interest you paid. To find the amount to enter on line 1, multiply the total interest you paid during the year on your mortgage by the following fraction.

$$\frac{\text{Certified indebtedness amount on your MCC}}{\text{Original amount of your mortgage}}$$

The fraction will not change as long as you are entitled to take the mortgage interest credit.

Table 1. Where To Deduct Interest and Taxes Paid on Your Home

See the text for information on what expenses are eligible.

IF you are eligible to deduct . . .	THEN report the amount on Schedule A (Form 1040) . . .
real estate taxes	line 6.
home mortgage interest and points reported on Form 1098	line 10.
home mortgage interest not reported on Form 1098	line 11.
points not reported on Form 1098	line 12.
qualified mortgage insurance premiums	line 13.

Example. Emily bought a home this year. Her mortgage loan is \$125,000. The certified indebtedness amount on her MCC is \$100,000. She paid \$7,500 interest this year. Emily figures the interest to enter on Form 8396, line 1, as follows:

$$\frac{\$100,000}{\$125,000} = 80\% (.80)$$

$$\$7,500 \times .80 = \$6,000$$

Emily enters \$6,000 on Form 8396, line 1. In each later year, she will figure her credit using only 80% of the interest she pays for that year.

Limits

Two limits may apply to your credit.

- A limit based on the credit rate, and
- A limit based on your tax.

Limit based on credit rate. If the certificate credit rate is higher than 20%, the credit you are allowed cannot be more than \$2,000.

Limit based on tax. Your credit (after applying the limit based on the credit rate) generally cannot be more than the following.

- **Form 1040 filers:** Your regular tax liability on Form 1040, line 44, plus any alternative minimum tax on Form 1040, line 45, minus certain other credits.
- **Form 1040NR filers:** Your regular tax liability on Form 1040NR, line 42, plus any alternative minimum tax on Form 1040NR, line 43, minus certain other credits.

Use Form 8396 to figure this limit.

Dividing the Credit

If two or more persons (other than a married couple filing a joint return) hold an interest in the home to which the MCC relates, the credit must be divided based on the interest held by each person.

Example. John and his brother, George, were issued an MCC. They used it to get a mortgage on their main home. John has a 60% ownership interest in the home, and George has a 40% ownership interest in the home. John paid \$5,400 mortgage interest this year and George paid \$3,600.

The MCC shows a credit rate of 25% and a certified indebtedness amount of \$130,000. The loan amount (mortgage) on their home is \$120,000. The credit is limited to \$2,000 because the credit rate is more than 20%.

John figures the credit by multiplying the mortgage interest he paid this year (\$5,400) by the certificate credit rate (25%) for a total of \$1,350. His credit is limited to \$1,200 (\$2,000 × 60%).

George figures the credit by multiplying the mortgage interest he paid this year (\$3,600) by the certificate credit rate (25%) for a total of \$900. His credit is limited to \$800 (\$2,000 × 40%).

Table 2. Effect of Refinancing on Your Credit

Keep for Your Records



IF you get a new (reissued) MCC and the amount of your new mortgage is ...	THEN the interest you claim on Form 8396, line 1, is* ...
smaller than or equal to the certified indebtedness amount on the new MCC	all the interest paid during the year on your new mortgage.
larger than the certified indebtedness amount on the new MCC	interest paid during the year on your new mortgage multiplied by the following fraction. $\frac{\text{certified indebtedness amount on your new MCC}}{\text{original amount of your mortgage}}$

*The credit using the new MCC cannot be more than the credit using the old MCC.
See *New MCC cannot increase your credit.*

Carryforward

If your allowable credit is reduced because of the limit based on your tax, you can carry forward the unused portion of the credit to the next 3 years or until used, whichever comes first.

Example. You receive a mortgage credit certificate from State X. This year, your regular tax liability is \$1,100, you owe no alternative minimum tax, and your mortgage interest credit is \$1,700. You claim no other credits. Your unused mortgage interest credit for this year is \$600 (\$1,700 – \$1,100). You can carry forward this amount to the next 3 years or until used, whichever comes first.

Credit rate more than 20%. If you are subject to the \$2,000 limit because your certificate credit rate is more than 20%, you cannot carry forward any amount more than \$2,000 (or your share of the \$2,000 if you must divide the credit).

Example. In the earlier example under *Dividing the Credit*, John and George used the entire \$2,000 credit. The excess \$150 for John (\$1,350 – \$1,200) and \$100 for George (\$900 – \$800) cannot be carried forward to future years, despite the respective tax liabilities for John and George.

Refinancing

If you refinance your original mortgage loan on which you had been given an MCC, you must get a new MCC to be able to claim the credit on the new loan. The amount of credit you can claim on the new loan may change. Table 2 summarizes how to figure your credit if you refinance your original mortgage loan.

An issuer may reissue an MCC after you refinance your mortgage. If you did not get a new MCC, you may want to contact the state or local housing finance agency that issued your original MCC for information about whether you can get a reissued MCC.

Year of refinancing. In the year of refinancing, add the applicable amount of interest paid on the old mortgage and the applicable amount of interest paid on the new mortgage, and enter the total on Form 8396, line 1.

If your new MCC has a credit rate different from the rate on the old MCC, you must attach a statement to Form 8396. The statement must show the calculation for lines 1, 2, and 3 for the

part of the year when the old MCC was in effect. It must show a separate calculation for the part of the year when the new MCC was in effect. Combine the amounts from both calculations for line 3, enter the total on line 3 of the form, and write "See attached" on the dotted line.

New MCC cannot increase your credit. The credit that you claim with your new MCC cannot be more than the credit that you could have claimed with your old MCC.

In most cases, the agency that issues your new MCC will make sure that it does not increase your credit. However, if either your old loan or your new loan has a variable (adjustable) interest rate, you will need to check this yourself. In that case, you will need to know the amount of the credit you could have claimed using the old MCC.

There are two methods for figuring the credit you could have claimed. Under one method, you figure the actual credit that would have been allowed. This means you use the credit rate on the old MCC and the interest you would have paid on the old loan.

If your old loan was a variable rate mortgage, you can use another method to determine the credit that you could have claimed. Under this method, you figure the credit using a payment schedule of a hypothetical self-amortizing mortgage with level payments projected to the final maturity date of the old mortgage. The interest rate of the hypothetical mortgage is the annual percentage rate (APR) of the new mortgage for purposes of the Federal Truth in Lending Act. The principal of the hypothetical mortgage is the remaining outstanding balance of the certified mortgage indebtedness shown on the old MCC.



CAUTION You must choose one method and use it consistently beginning with the first tax year for which you claim the credit based on the new MCC.



TIP As part of your tax records, you should keep your old MCC and the schedule of payments for your old mortgage.

Table 3. Adjusted Basis

This table lists examples of some items that generally will increase or decrease your basis in your home. It is not intended to be all-inclusive.

Increases to Basis	Decreases to Basis
<p>Improvements:</p> <ul style="list-style-type: none"> • Putting an addition on your home • Replacing an entire roof • Paving your driveway • Installing central air conditioning • Rewiring your home <p>Assessments for local improvements (see <i>Assessments for local benefits</i>, under <i>What You Can and Cannot Deduct</i>)</p> <p>Amounts spent to restore damaged property</p>	<ul style="list-style-type: none"> • Insurance or other reimbursement for casualty losses • Deductible casualty loss not covered by insurance • Payments received for easement or right-of-way granted • Depreciation allowed or allowable if home is used for business or rental purposes • Value of subsidy for energy conservation measure excluded from income

First-Time Homebuyer Credit

The following paragraphs summarize the first-time homebuyer credit. For more details, see Form 5405 and its separate instructions.

Who Can Claim the Credit

In general, you may be able to claim the credit if you are a first-time homebuyer or a long-time resident of the same main home.

First-time homebuyer. You are considered a first-time homebuyer if you meet all of the following requirements.

1. You purchased your main home located in the United States:
 - a. After December 31, 2009, and before May 1, 2010, or
 - b. After April 30, 2010, and before October 1, 2010, if you entered into a binding contract before May 1, 2010, to purchase the home before July 1, 2010.
2. You (and your spouse if married) did not own any other main home during the 3-year period ending on the date of purchase.
3. You do not meet any of the conditions listed under *Who Cannot Claim the Credit*.

Long-time resident of the same main home. You are considered a long-time resident of the same main home if you meet all of the following requirements.

1. You (and your spouse if married) previously owned and used the same main home as your main home for any 5-consecutive-year period during the 8-year period ending on the date you purchased your new main home.
2. You purchased your new main home located in the United States:
 - a. After December 31, 2009, and before May 1, 2010, or

- b. After April 30, 2010, and before October 1, 2010, if you entered into a binding contract before May 1, 2010, to purchase the home before July 1, 2010.

3. You do not meet any of the conditions listed under *Who Cannot Claim the Credit*.

Additional year to purchase a home for members of the uniformed services or Foreign Service and employees of the intelligence community. Members of the uniformed services or Foreign Service and employees of the intelligence community who are on qualified official extended duty outside the United States may have an additional year to purchase a home and qualify for the credit.

Who Cannot Claim the Credit

You cannot claim the credit if any of the following apply.

1. The purchase price of the home is more than \$800,000.
2. Your modified adjusted gross income is \$145,000 or more (\$245,000 or more if married filing jointly).
3. You cannot claim the credit for any year for which you can be claimed as a dependent on another person's tax return.
4. You (and your spouse if married) are under age 18 on the date of purchase.
5. You are a nonresident alien.
6. Your home is located outside the United States.
7. You sell the home, or it ceases to be your main home, before the end of the year in which you purchased it.
8. You acquired the home by gift or inheritance.
9. You acquired your home from a related person.
10. You acquired your home from a person related to your spouse.

Amount of the Credit

First-time homebuyer. Generally, the credit is the smaller of:

- \$8,000 (\$4,000 if married filing separately), or
- 10% of the purchase price of the home.

Long-time resident of the same main home. Generally, the credit is the smaller of:

- \$6,500 (\$3,250 if married filing separately), or
- 10% of the purchase price of the home.

Phase-out of the credit. You are allowed the full amount of the credit if your modified adjusted gross income (MAGI) is \$125,000 or less (\$225,000 or less if married filing jointly). The phase-out of the credit begins when your MAGI exceeds \$125,000 (\$225,000 if married filing jointly). The credit is eliminated completely when your MAGI reaches \$145,000 (\$245,000 if married filing jointly).

Modified adjusted gross income (MAGI). Your modified adjusted gross income is the amount from Form 1040, line 38, increased by the total of any:

- Exclusion of income from Puerto Rico, and
- Amount from Form 2555, Foreign Earned Income, lines 45 and 50; Form 2555-EZ, Foreign Earned Income Exclusion, line 18; and Form 4563, Exclusion of Income for Bona Fide Residents of American Samoa, line 15.

Basis

Basis is your starting point for figuring a gain or loss if you later sell your home, or for figuring depreciation if you later use part of your home for business purposes or for rent.

While you own your home, you may add certain items to your basis. You may subtract certain other items from your basis. These items are called adjustments to basis and are explained later under *Adjusted Basis*.

It is important that you understand these terms when you first acquire your home because you must keep track of your basis and adjusted basis during the period you own your home. You also must keep records of the events that affect basis or adjusted basis. See *Keeping Records*, later.

Figuring Your Basis

How you figure your basis depends on how you acquire your home. If you buy or build your home, your cost is your basis. If you receive your home as a gift, your basis is usually the same as the adjusted basis of the person who gave you the property. If you inherit your home from a decedent, different rules apply depending on the date of the decedent's death. Each of these topics is discussed later.

Fair market value. Fair market value (FMV) is the price at which property would change hands between a willing buyer and a willing seller,

neither being under any compulsion to buy or sell and who both have a reasonable knowledge of all the necessary facts.

Property transferred from a spouse. If your home is transferred to you from your spouse, or from your former spouse as a result of a divorce, your basis is the same as your spouse's (or former spouse's) adjusted basis just before the transfer. Publication 504, *Divorced or Separated Individuals*, fully discusses transfers between spouses.

Cost as Basis

The cost of your home, whether you purchased it or constructed it, is the amount you paid for it, including any debt you assumed.

The cost of your home includes most settlement or closing costs you paid when you bought the home. If you built your home, your cost includes most closing costs paid when you bought the land or settled on your mortgage.



If you elect to deduct the sales taxes on the purchase or construction of your home as an itemized deduction on Schedule A (Form 1040), you cannot include the sales taxes as part of your cost basis in the home.

Purchase. The basis of a home you bought is the amount you paid for it. This usually includes your down payment and any debt you assumed. The basis of a cooperative apartment is the amount you paid for your shares in the corporation that owns or controls the property. This amount includes any purchase commissions or other costs of acquiring the shares.

Construction. If you contracted to have your home built on land that you own, your basis in the home is your basis in the land plus the amount you paid to have the home built. This includes the cost of labor and materials, the amount you paid the contractor, any architect's fees, building permit charges, utility meter and connection charges, and legal fees that are directly connected with building your home. If you built all or part of your home yourself, your basis is the total amount it cost you to build it. You cannot include the value of your own labor or any other labor for which you did not pay.

Real estate taxes. Real estate taxes are usually divided so that you and the seller each pay taxes for the part of the property tax year that each owned the home. See the earlier discussion of *Real estate taxes paid at settlement or closing*, under *Real Estate Taxes*, earlier, to figure the real estate taxes you paid or are considered to have paid.

If you pay any part of the seller's share of the real estate taxes (the taxes up to the date of sale), and the seller did not reimburse you, add those taxes to your basis in the home. You cannot deduct them as taxes paid.

If the seller paid any of your share of the real estate taxes (the taxes beginning with the date of sale), you can still deduct those taxes. Do not include those taxes in your basis. If you did not reimburse the seller, you must reduce your basis by the amount of those taxes.

Example 1. You bought your home on September 1. The property tax year in your area is the calendar year, and the tax is due on August 15. The real estate taxes on the home you

bought were \$1,275 for the year and had been paid by the seller on August 15. You did not reimburse the seller for your share of the real estate taxes from September 1 through December 31. You must reduce the basis of your home by the \$426 $[(122 \div 365) \times \$1,275]$ the seller paid for you. You can deduct your \$426 share of real estate taxes on your return for the year you purchased your home.

Example 2. You bought your home on May 3, 2010. The property tax year in your area is the calendar year. The taxes for the previous year are assessed on January 2 and are due on May 31 and November 30. Under state law, the taxes become a lien on May 31. You agreed to pay all taxes due after the date of sale. The taxes due in 2010 for 2009 were \$1,375. The taxes due in 2011 for 2010 will be \$1,425.

You cannot deduct any of the taxes paid in 2010 because they relate to the 2009 property tax year and you did not own the home until 2010. Instead, you add the \$1,375 to the cost (basis) of your home.

You owned the home in 2010 for 243 days (May 3 to December 31), so you can take a tax deduction on your 2011 return of \$949 $[(243 \div 365) \times \$1,425]$ paid in 2011 for 2010. You add the remaining \$476 $(\$1,425 - \$949)$ of taxes paid in 2011 to the cost (basis) of your home.

Settlement or closing costs. If you bought your home, you probably paid settlement or closing costs in addition to the contract price. These costs are divided between you and the seller according to the sales contract, local custom, or understanding of the parties. If you built your home, you probably paid these costs when you bought the land or settled on your mortgage.

The only settlement or closing costs you can deduct are home mortgage interest and certain real estate taxes. You deduct them in the year you buy your home if you itemize your deductions. You can add certain other settlement or closing costs to the basis of your home.

Items added to basis. You can include in your basis the settlement fees and closing costs you paid for buying your home. A fee is for buying the home if you would have had to pay it even if you paid cash for the home.

The following are some of the settlement fees and closing costs that you can include in the original basis of your home.

- Abstract fees (abstract of title fees).
- Charges for installing utility services.
- Legal fees (including fees for the title search and preparation of the sales contract and deed).
- Recording fees.
- Surveys.
- Transfer or stamp taxes.
- Owner's title insurance.
- Any amount the seller owes that you agree to pay, such as back taxes or interest, recording or mortgage fees, cost for improvements or repairs, and sales commissions.

If the seller actually paid for any item for which you are liable and for which you can take a deduction (such as your share of the real estate taxes for the year of sale), you must reduce your

basis by that amount unless you are charged for it in the settlement.

Items not added to basis and not deductible. Here are some settlement and closing costs that you cannot deduct **or** add to your basis.

1. Fire insurance premiums.
2. Charges for using utilities or other services related to occupancy of the home before closing.
3. Rent for occupying the home before closing.
4. Charges connected with getting or refinancing a mortgage loan, such as:
 - a. Loan assumption fees,
 - b. Cost of a credit report, and
 - c. Fee for an appraisal required by a lender.

Points paid by seller. If you bought your home after April 3, 1994, you must reduce your basis by any points paid for your mortgage by the person who sold you your home.

If you bought your home after 1990 but before April 4, 1994, you must reduce your basis by seller-paid points only if you deducted them. See *Points*, earlier, for the rules on deducting points.

Gift

To figure the basis of property you receive as a gift, you must know its adjusted basis (defined later) to the donor just before it was given to you, its FMV at the time it was given to you, and any gift tax paid on it.

Donor's adjusted basis is more than FMV. If someone gave you your home and the donor's adjusted basis, when it was given to you, was more than the FMV, your basis at the time of receipt is the same as the donor's adjusted basis.

Disposition basis. If the donor's adjusted basis at the time of the gift is more than the FMV, your basis when you dispose of the property will depend on whether you have a gain or a loss.

- If using the donor's adjusted basis results in a loss when you sell the home, you must use the FMV of the home at the time of the gift as your basis.
- If using the FMV results in a gain, you have neither a gain nor a loss.

Donor's adjusted basis equal to or less than the FMV. If someone gave you your home after 1976 and the donor's adjusted basis, when it was given to you, was equal to or less than the FMV, your basis at the time of receipt is the same as the donor's adjusted basis, plus the part of any federal gift tax paid that is due to the net increase in value of the home.

Part of federal gift tax due to net increase in value. Figure the part of the federal gift tax paid that is due to the net increase in value of the home by multiplying the total federal gift tax paid by a fraction. The numerator (top part) of the fraction is the net increase in the value of the home, and the denominator (bottom part) is the

value of the home for gift tax purposes after reduction for any annual exclusion and marital or charitable deduction that applies to the gift. The net increase in the value of the home is its FMV minus the adjusted basis of the donor.

Publication 551 gives more information, including examples, on figuring your basis when you receive property as a gift.

Inheritance

If you inherited your home from someone who died in 2010, your basis in the home will be determined under special rules. See Publication 4895, Tax Treatment of Property Acquired From a Decedent Dying in 2010, for more information.

Adjusted Basis

While you own your home, various events may take place that can change the original basis of your home. These events can increase or decrease your original basis. The result is called adjusted basis. See Table 3, earlier, for a list of some of the items that can adjust your basis.

Improvements. An improvement materially adds to the value of your home, considerably prolongs its useful life, or adapts it to new uses. You must add the cost of any improvements to the basis of your home. You cannot deduct these costs.

Improvements include putting a recreation room in your unfinished basement, adding another bathroom or bedroom, putting up a fence, putting in new plumbing or wiring, installing a new roof, and paving your driveway.

Amount added to basis. The amount you add to your basis for improvements is your actual cost. This includes all costs for material and labor, except your own labor, and all expenses related to the improvement. For example, if you had your lot surveyed to put up a fence, the cost of the survey is a part of the cost of the fence.

You also must add to your basis state and local assessments for improvements such as

streets and sidewalks if they increase the value of the property. These assessments are discussed earlier under *Real Estate Taxes*.

Repairs versus improvements. A repair keeps your home in an ordinary, efficient operating condition. It does not add to the value of your home or prolong its life. Repairs include repainting your home inside or outside, fixing your gutters or floors, fixing leaks or plastering, and replacing broken window panes. You cannot deduct repair costs and generally cannot add them to the basis of your home.

However, repairs that are done as part of an extensive remodeling or restoration of your home are considered improvements. You add them to the basis of your home.

Records to keep. You can use Table 4 (at the end of the publication) as a guide to help you keep track of improvements to your home. Also see *Keeping Records*, later.

Energy conservation subsidy. If a public utility gives you (directly or indirectly) a subsidy for the purchase or installation of an energy conservation measure for your home, do not include the value of that subsidy in your income. You must reduce the basis of your home by that value.

An energy conservation measure is an installation or modification primarily designed to reduce consumption of electricity or natural gas or to improve the management of energy demand.

basis of your home. These records include your purchase contract and settlement papers if you bought the property, or other objective evidence if you acquired it by gift, inheritance, or similar means. You should keep any receipts, canceled checks, and similar evidence for improvements or other additions to the basis. In addition, you should keep track of any decreases to the basis such as those listed in Table 3.

How to keep records. How you keep records is up to you, but they must be clear and accurate and must be available to the IRS.

How long to keep records. You must keep your records for as long as they are important for meeting any provision of the federal tax law.

Keep records that support an item of income, a deduction, or a credit appearing on a return until the period of limitations for the return runs out. (A period of limitations is the period of time after which no legal action can be brought.) For assessment of tax you owe, this is generally 3 years from the date you filed the return. For filing a claim for credit or refund, this is generally 3 years from the date you filed the original return, or 2 years from the date you paid the tax, whichever is later. Returns filed before the due date are treated as filed on the due date.

You may need to keep records relating to the basis of property (discussed earlier) longer than for the period of limitations. Keep those records as long as they are important in figuring the basis of the original or replacement property. Generally, this means for as long as you own the property and, after you dispose of it, for the period of limitations that applies to you.

Keeping Records



Keeping full and accurate records is vital to properly report your income and expenses, to support your deductions and credits, and to know the basis or adjusted

Table 4. Record of Home Improvements

Keep for Your Records



Keep this for your records. Also, keep receipts or other proof of improvements.



Remove from this record any improvements that are no longer part of your main home. For example, if you put wall-to-wall carpeting in your home and later replace it with new wall-to-wall carpeting, remove the cost of the first carpeting.

(a) Type of Improvement	(b) Date	(c) Amount	(a) Type of Improvement	(b) Date	(c) Amount
Additions:			Heating & Air Conditioning:		
Bedroom			Heating system		
Bathroom			Central air conditioning		
Deck			Furnace		
Garage			Duct work		
Porch			Central humidifier		
Patio			Filtration system		
Storage shed			Other		
Fireplace					
Other			Electrical:		
			Lighting fixtures		
Lawn & Grounds:			Wiring upgrades		
Landscaping			Other		
Driveway					
Walkway			Plumbing:		
Fences			Water heater		
Retaining wall			Soft water system		
Sprinkler system			Filtration system		
Swimming pool			Other		
Exterior lighting					
Other			Insulation:		
			Attic		
Communications:			Walls		
Satellite dish			Floors		
Intercom			Pipes and duct work		
Security system			Other		
Other					
			Interior Improvements:		
Miscellaneous:			Built-in appliances		
Storm windows and doors			Kitchen modernization		
Roof			Bathroom modernization		
Central vacuum			Flooring		
Other			Wall-to-wall carpeting		
			Other		

How To Get Tax Help

You can get help with unresolved tax issues, order free publications and forms, ask tax questions, and get information from the IRS in several ways. By selecting the method that is best for you, you will have quick and easy access to tax help.

Contacting your Taxpayer Advocate. The Taxpayer Advocate Service (TAS) is an independent organization within the IRS. We help taxpayers who are experiencing economic harm, such as not being able to provide necessities like housing, transportation, or food; taxpayers who are seeking help in resolving tax problems with the IRS; and those who believe that an IRS system or procedure is not working as it should. Here are seven things every taxpayer should know about TAS:

- The Taxpayer Advocate Service is your voice at the IRS.
- Our service is free, confidential, and tailored to meet your needs.
- You may be eligible for our help if you have tried to resolve your tax problem through normal IRS channels and have gotten nowhere, or you believe an IRS procedure just isn't working as it should.
- We help taxpayers whose problems are causing financial difficulty or significant cost, including the cost of professional representation. This includes businesses as well as individuals.
- Our employees know the IRS and how to navigate it. If you qualify for our help, we'll assign your case to an advocate who will listen to your problem, help you understand what needs to be done to resolve it, and stay with you every step of the way until your problem is resolved.
- We have at least one local taxpayer advocate in every state, the District of Columbia, and Puerto Rico. You can call your local advocate, whose number is in your phone book, in Publication 1546, Taxpayer Advocate Service—Your Voice at the IRS, and on our website at www.irs.gov/advocate. You can also call our toll-free line at 1-877-777-4778 or TTY/TDD 1-800-829-4059.
- You can learn about your rights and responsibilities as a taxpayer by visiting our online tax toolkit at www.taxtoolkit.irs.gov. You can get updates on hot tax topics by visiting our YouTube channel at www.youtube.com/tasnta and our Facebook page at www.facebook.com/YourVoiceAtIRS, or by following our tweets at www.twitter.com/YourVoiceAtIRS.

Low Income Taxpayer Clinics (LITCs). The Low Income Taxpayer Clinic program serves individuals who have a problem with the IRS and whose income is below a certain level. LITCs are independent from the IRS. Most LITCs can provide representation before the IRS or in court on audits, tax collection disputes, and other issues for free or a small fee. If an individual's native language is not English, some clinics can provide multilingual information about taxpayer rights and responsibilities. For

more information, see Publication 4134, Low Income Taxpayer Clinic List. This publication is available at IRS.gov, by calling 1-800-TAX-FORM (1-800-829-3676), or at your local IRS office.

Free tax services. Publication 910, IRS Guide to Free Tax Services, is your guide to IRS services and resources. Learn about free tax information from the IRS, including publications, services, and education and assistance programs. The publication also has an index of over 100 TeleTax topics (recorded tax information) you can listen to on the telephone. The majority of the information and services listed in this publication are available to you free of charge. If there is a fee associated with a resource or service, it is listed in the publication.

Accessible versions of IRS published products are available on request in a variety of alternative formats for people with disabilities.

Free help with your return. Free help in preparing your return is available nationwide from IRS-trained volunteers. The Volunteer Income Tax Assistance (VITA) program is designed to help low-income taxpayers and the Tax Counseling for the Elderly (TCE) program is designed to assist taxpayers age 60 and older with their tax returns. Many VITA sites offer free electronic filing and all volunteers will let you know about credits and deductions you may be entitled to claim. To find the nearest VITA or TCE site, call 1-800-829-1040.

As part of the TCE program, AARP offers the Tax-Aide counseling program. To find the nearest AARP Tax-Aide site, call 1-888-227-7669 or visit AARP's website at www.aarp.org/money/taxaide.

For more information on these programs, go to IRS.gov and enter keyword "VITA" in the upper right-hand corner.



Internet. You can access the IRS website at IRS.gov 24 hours a day, 7 days a week to:

- *E-file* your return. Find out about commercial tax preparation and *e-file* services available free to eligible taxpayers.
- Check the status of your 2010 refund. Go to IRS.gov and click on *Where's My Refund*. Wait at least 72 hours after the IRS acknowledges receipt of your e-filed return, or 3 to 4 weeks after mailing a paper return. If you filed Form 8379 with your return, wait 14 weeks (11 weeks if you filed electronically). Have your 2010 tax return available so you can provide your social security number, your filing status, and the exact whole dollar amount of your refund.
- Download forms, including talking tax forms, instructions, and publications.
- Order IRS products online.
- Research your tax questions online.
- Search publications online by topic or keyword.
- Use the online Internal Revenue Code, regulations, or other official guidance.
- View Internal Revenue Bulletins (IRBs) published in the last few years.

- Figure your withholding allowances using the withholding calculator online at www.irs.gov/individuals.
- Determine if Form 6251 must be filed by using our Alternative Minimum Tax (AMT) Assistant.
- Sign up to receive local and national tax news by email.
- Get information on starting and operating a small business.



Phone. Many services are available by phone.

- *Ordering forms, instructions, and publications.* Call 1-800-TAX-FORM (1-800-829-3676) to order current-year forms, instructions, and publications, and prior-year forms and instructions. You should receive your order within 10 days.
- *Asking tax questions.* Call the IRS with your tax questions at 1-800-829-1040.
- *Solving problems.* You can get face-to-face help solving tax problems every business day in IRS Taxpayer Assistance Centers. An employee can explain IRS letters, request adjustments to your account, or help you set up a payment plan. Call your local Taxpayer Assistance Center for an appointment. To find the number, go to www.irs.gov/localcontacts or look in the phone book under *United States Government, Internal Revenue Service*.
- *TTY/TDD equipment.* If you have access to TTY/TDD equipment, call 1-800-829-4059 to ask tax questions or to order forms and publications.
- *TeleTax topics.* Call 1-800-829-4477 to listen to pre-recorded messages covering various tax topics.
- *Refund information.* To check the status of your 2010 refund, call 1-800-829-1954 or 1-800-829-4477 (automated refund information 24 hours a day, 7 days a week). Wait at least 72 hours after the IRS acknowledges receipt of your e-filed return, or 3 to 4 weeks after mailing a paper return. If you filed Form 8379 with your return, wait 14 weeks (11 weeks if you filed electronically). Have your 2010 tax return available so you can provide your social security number, your filing status, and the exact whole dollar amount of your refund. If you check the status of your refund and are not given the date it will be issued, please wait until the next week before checking back.
- *Other refund information.* To check the status of a prior-year refund or amended return refund, call 1-800-829-1040.

Evaluating the quality of our telephone services. To ensure IRS representatives give accurate, courteous, and professional answers, we use several methods to evaluate the quality of our telephone services. One method is for a second IRS representative to listen in on a second IRS representative to listen in on or record random telephone calls. Another is to ask

some callers to complete a short survey at the end of the call.



Walk-in. Many products and services are available on a walk-in basis.

- **Products.** You can walk in to many post offices, libraries, and IRS offices to pick up certain forms, instructions, and publications. Some IRS offices, libraries, grocery stores, copy centers, city and county government offices, credit unions, and office supply stores have a collection of products available to print from a CD or photocopy from reproducible proofs. Also, some IRS offices and libraries have the Internal Revenue Code, regulations, Internal Revenue Bulletins, and Cumulative Bulletins available for research purposes.
- **Services.** You can walk in to your local Taxpayer Assistance Center every business day for personal, face-to-face tax help. An employee can explain IRS letters, request adjustments to your tax account, or help you set up a payment plan. If you need to resolve a tax problem, have questions about how the tax law applies to your individual tax return, or you are more comfortable talking with someone in person, visit your local Taxpayer Assistance Center where you can spread out your records and talk with an IRS representative face-to-face. No appointment is necessary—just walk in. If you prefer, you

can call your local Center and leave a message requesting an appointment to resolve a tax account issue. A representative will call you back within 2 business days to schedule an in-person appointment at your convenience. If you have an ongoing, complex tax account problem or a special need, such as a disability, an appointment can be requested. All other issues will be handled without an appointment. To find the number of your local office, go to www.irs.gov/localcontacts or look in the phone book under *United States Government, Internal Revenue Service*.



Mail. You can send your order for forms, instructions, and publications to the address below. You should receive a response within 10 days after your request is received.

Internal Revenue Service
1201 N. Mitsubishi Motorway
Bloomington, IL 61705-6613



DVD for tax products. You can order Publication 1796, IRS Tax Products DVD, and obtain:

- Current-year forms, instructions, and publications.

- Prior-year forms, instructions, and publications.
- Tax Map: an electronic research tool and finding aid.
- Tax law frequently asked questions.
- Tax Topics from the IRS telephone response system.
- Internal Revenue Code—Title 26 of the U.S. Code.
- Fill-in, print, and save features for most tax forms.
- Internal Revenue Bulletins.
- Toll-free and email technical support.
- Two releases during the year.
 - The first release will ship the beginning of January 2011.
 - The final release will ship the beginning of March 2011.

Purchase the DVD from National Technical Information Service (NTIS) at www.irs.gov/cdorders for \$30 (no handling fee) or call 1-877-233-6767 toll free to buy the DVD for \$30 (plus a \$6 handling fee).



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Tax Publications for Individual Taxpayers

See *How To Get Tax Help* for a variety of ways to get publications, including by computer, phone, and mail.

General Guides

- 1** Your Rights as a Taxpayer
- 17** Your Federal Income Tax For Individuals
- 334** Tax Guide for Small Business (For Individuals Who Use Schedule C or C-EZ)
- 509** Tax Calendars for 2011
- 910** IRS Guide to Free Tax Services

Specialized Publications

- 3** Armed Forces' Tax Guide
- 54** Tax Guide for U.S. Citizens and Resident Aliens Abroad
- 225** Farmer's Tax Guide
- 463** Travel, Entertainment, Gift, and Car Expenses
- 501** Exemptions, Standard Deduction, and Filing Information
- 502** Medical and Dental Expenses (Including the Health Coverage Tax Credit)
- 503** Child and Dependent Care Expenses
- 504** Divorced or Separated Individuals
- 505** Tax Withholding and Estimated Tax
- 514** Foreign Tax Credit for Individuals
- 516** U.S. Government Civilian Employees Stationed Abroad
- 517** Social Security and Other Information for Members of the Clergy and Religious Workers
- 519** U.S. Tax Guide for Aliens
- 521** Moving Expenses
- 523** Selling Your Home
- 524** Credit for the Elderly or the Disabled
- 525** Taxable and Nontaxable Income
- 526** Charitable Contributions
- 527** Residential Rental Property (Including Rental of Vacation Homes)
- 529** Miscellaneous Deductions
- 530** Tax Information for Homeowners
- 531** Reporting Tip Income
- 535** Business Expenses

- 536** Net Operating Losses (NOLs) for Individuals, Estates, and Trusts
- 537** Installment Sales
- 541** Partnerships
- 544** Sales and Other Dispositions of Assets
- 547** Casualties, Disasters, and Thefts
- 550** Investment Income and Expenses (Including Capital Gains and Losses)
- 551** Basis of Assets
- 552** Recordkeeping for Individuals
- 554** Tax Guide for Seniors
- 555** Community Property
- 556** Examination of Returns, Appeal Rights, and Claims for Refund
- 559** Survivors, Executors, and Administrators
- 561** Determining the Value of Donated Property
- 570** Tax Guide for Individuals With Income From U.S. Possessions
- 571** Tax-Sheltered Annuity Plans (403(b) Plans) For Employees of Public Schools and Certain Tax-Exempt Organizations
- 575** Pension and Annuity Income
- 584** Casualty, Disaster, and Theft Loss Workbook (Personal-Use Property)
- 587** Business Use of Your Home (Including Use by Daycare Providers)
- 590** Individual Retirement Arrangements (IRAs)
- 593** Tax Highlights for U.S. Citizens and Residents Going Abroad
- 594** The IRS Collection Process
- 596** Earned Income Credit (EIC)
- 721** Tax Guide to U.S. Civil Service Retirement Benefits
- 901** U.S. Tax Treaties
- 907** Tax Highlights for Persons with Disabilities
- 908** Bankruptcy Tax Guide
- 915** Social Security and Equivalent Railroad Retirement Benefits

- 919** How Do I Adjust My Tax Withholding?
- 925** Passive Activity and At-Risk Rules
- 926** Household Employer's Tax Guide For Wages Paid in 2011
- 929** Tax Rules for Children and Dependents
- 936** Home Mortgage Interest Deduction
- 946** How To Depreciate Property
- 947** Practice Before the IRS and Power of Attorney
- 950** Introduction to Estate and Gift Taxes
- 967** The IRS Will Figure Your Tax
- 969** Health Savings Accounts and Other Tax-Favored Health Plans
- 970** Tax Benefits for Education
- 971** Innocent Spouse Relief
- 972** Child Tax Credit
- 1542** Per Diem Rates (For Travel Within the Continental United States)
- 1544** Reporting Cash Payments of Over \$10,000 (Received in a Trade or Business)
- 1546** Taxpayer Advocate Service – Your Voice at the IRS

Spanish Language Publications

- 1SP** Derechos del Contribuyente
- 17(SP)** El Impuesto Federal sobre los Ingresos Para Personas Físicas
- 547(SP)** Hechos Fortuitos Desastres y Robos
- 584(SP)** Registro de Pérdidas por Hechos Fortuitos (Imprevistos), Desastres y Robos (Propiedad de Uso Personal)
- 594SP** El Proceso de Cobro del IRS
- 596SP** Crédito por Ingreso del Trabajo
- 850(EN/SP)** English-Spanish Glossary of Words and Phrases Used in Publications Issued by the Internal Revenue Service
- 1544(SP)** Informe de Pagos en Efectivo en Exceso de \$10,000 (Recibidos en una Ocupación o Negocio)

Commonly Used Tax Forms

See *How To Get Tax Help* for a variety of ways to get forms, including by computer, phone, and mail.

Form Number and Title	Form Number and Title
1040 U.S. Individual Income Tax Return	2441 Child and Dependent Care Expenses
Sch A Itemized Deductions	2848 Power of Attorney and Declaration of Representative
Sch B Interest and Ordinary Dividends	2848(SP) Poder Legal y Declaración del Representante
Sch C Profit or Loss From Business	3903 Moving Expenses
Sch C-EZ Net Profit From Business	4562 Depreciation and Amortization
Sch D Capital Gains and Losses	4868 Application for Automatic Extension of Time To File U.S. Individual Income Tax Return
Sch D-1 Continuation Sheet for Schedule D	4868(SP) Solicitud de Prórroga Automática para Presentar la Declaración del Impuesto sobre el Ingreso Personal de los Estados Unidos
Sch E Supplemental Income and Loss	4952 Investment Interest Expense Deduction
Sch EIC Earned Income Credit	5329 Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts
Sch F Profit or Loss From Farming	6251 Alternative Minimum Tax—Individuals
Sch H Household Employment Taxes	8283 Noncash Charitable Contributions
Sch J Income Averaging for Farmers and Fishermen	8582 Passive Activity Loss Limitations
Sch L Standard Deduction for Certain Filers	8606 Nondeductible IRAs
Sch M Making Work Pay	8812 Additional Child Tax Credit
Sch R Credit for the Elderly or the Disabled	8822 Change of Address
Sch SE Self-Employment Tax	8829 Expenses for Business Use of Your Home
1040A U.S. Individual Income Tax Return	8863 Education Credits (American Opportunity, and Lifetime Learning Credits)
1040EZ Income Tax Return for Single and Joint Filers With No Dependents	9465 Installment Agreement Request
1040-ES Estimated Tax for Individuals	9465(SP) Solicitud para un Plan de Pagos a Plazos
1040X Amended U.S. Individual Income Tax Return	
2106 Employee Business Expenses	
2106-EZ Unreimbursed Employee Business Expenses	
2210 Underpayment of Estimated Tax by Individuals, Estates, and Trusts	