

FEDERAL INCOME TAXATION IN INDIANA

STUDY SHEET

Summary

New homeowners aren't always aware of all of the tax implications that accompany homeownership. From the moment they take possession at closing until the second they sell the home to a new owner, homeowners deal with numerous positive and negative tax consequences.

Top Takeaways

- Property taxes contribute about a third to local government revenue.
- The Taxpayer Relief Act of 1997 allows first-time homebuyers to use up to \$10,000 of their IRA funds for down payment and closing costs without incurring a penalty, though they still owe taxes for the distribution.
- Closing points from the sale paid by the buyer are tax deductible.
- During the life of the loan, mortgage interest may be deducted as long as the loan is secured by the home itself.
- When a home sale yields a profit, capital gains taxes are owed. There are capital gains exclusions:
 - » Eligible when owners lived in the home for at least two of the five years immediately preceding the sale
 - » Up to \$250,000 profit exclusion for single taxpayers
 - » Up to \$500,000 profit exclusion for couples filing jointly
 - » Minus capital improvements

MORTGAGE CREDIT CERTIFICATE (MCC)
Allows certain buyers to claim a portion of their annual mortgage interest as a dollar-for-dollar tax credit

TAX CREDIT
Amount applied directly to the amount of taxes owed

TAX DEDUCTION
Amount applied after adjusted gross income is calculated

ASSESSED VALUE
Percentage of market value, based on local government tax rate

Take a look back at your notes for these items:

- National tax regulations and guidelines