Reminders

Future developments. For the latest information about developments related to Publication 530, such as legislation enacted after it was published, go to www.irs.gov/pub530.

Residential energy credits. You may be able to take a credit if you made energy saving improvements to your home located in the United States in 2012. See Form 5695, Residential Energy Credits, for more information.

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

Hardest Hit Fund and Emergency Homeowners' Loan Programs. If you are a homeowner who received assistance under a State Housing Finance Agency Hardest Hit Fund program or an Emergency Homeowners' Loan Program, you may be able to deduct all of the payments you made on your mortgage during the year. For details, see Hardest Hit Fund and Emergency Homeowners' Loan Programs under What You Can and Cannot Deduct, later.

Mortgage debt forgiveness. You can exclude from gross income any discharges of qualified principal residence indebtedness made after 2006 and before 2014. 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. The first-time homebuyer credit is not available for homes purchased in 2012 or later years. However, 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 2012. If you bought the home in 2008 and you owned and used it as your main home for all of 2012, you generally must continue repaying the credit with your 2012 tax return, but you do not have to attach Form 5405. See Form 5405 and its instructions for details and for exceptions to the repayment rule.

Photographs of missing children. The Internal Revenue Service is a proud partner with the

Get forms and other Information faster and easier by:
Internet IRS.gov
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 that contains sleeping space and toilet and cooking facilities. 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 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 and Specialty Forms and Publications Branch
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 taxpforms@irs.gov.
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.

Ordering forms and publications. Visit www.irs.gov/formspubs/ to download forms and publications, call 1-800-TAX-FORM (1-800-829-3676), or write to the address below and receive a response within 10 days after your request is received.

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

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 Repayment of the First-Time Homebuyer Credit
□ 5695 Residential Energy Credits
□ 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, 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 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. For more information see Publication 517, Social Security and Other Information for Members of the Clergy and Religious Workers, and Publication 3, Armed Forces’ Tax Guide.

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.

Hardest Hit Fund and Emergency Homeowners’ Loan Programs
You can use a special method to compute your deduction for mortgage interest and real estate taxes on your main home if you meet the following two conditions:

1. You received assistance under:
   a. A State Housing Finance Agency (State HFA) Hardest Hit Fund program in which program payments could be used to pay mortgage interest, or
   b. An Emergency Homeowners’ Loan Program administered by the Department of Housing and Urban Development (HUD) or a state.

2. You meet the rules to deduct all of the mortgage interest on your loan and all of the real estate taxes on your main home.

If you meet these tests, then you can deduct all of the payments you actually made during the year to your mortgage servicer, the State HFA, or HUD on the home mortgage (including the amount shown on box 3 of Form 1098-MA, Mortgage Assistance Payments), but not more than the sum of the amounts shown on Form 1098, Mortgage Interest Statement, in box 1 (mortgage interest received) and box 4 (mortgage insurance premiums and real property taxes). However, you are not required to use this special method to compute your deduction for mortgage interest and real estate taxes on your main home.

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 assessed uniformly at a like rate on all real property throughout the community. The proceeds must be for general community or governmental purposes 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 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 366 .................. 3.333
4. Multiply line 1 by line 3. This is your deduction. Enter it on Schedule A (Form 1040), line 6 .......................... $243

You can deduct $243 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 a 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 the 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 local benefits 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).

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 performed 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 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 pre-paid 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 are not required 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.

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?

Start Here:

Is the loan secured by your main home?

Yes

Is the payment of points an established business practice in your area?

Yes

Were the points paid more than the amount generally charged in your area?

Yes

Do you use the cash method of accounting?

Yes

Were the points paid in place of amounts that ordinarily are separately stated on the settlement sheet?

Yes

Were the funds you provided (other than those you borrowed from your lender or mortgage broker), plus any points the seller paid, at least as much as the points charged?*

Yes

Did you take out the loan to improve your main home?

Yes

Did you take out the loan to buy or build your main home?

Yes

Were the points computed as a percentage of the principal amount of the mortgage?

Yes

Is the amount paid clearly shown as points on the settlement statement?

Yes

You can fully deduct the points this year on Schedule A (Form 1040).

You cannot fully deduct the points this year. See the discussion on Points.

* The funds you provided are not required 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. However, 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 prepaid his mortgage in full in 2012. He had deducted $1,400 of these points through 2011. Dan prepaid his mortgage in full in 2012. He can deduct the remaining $1,600 of points in 2012.

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 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 2012 should be provided or sent to you by January 31, 2013. 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 interest.

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

See the text for information on what expenses are eligible.

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

Publication 530 (2012)
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 2012 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 2012, 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 2014. 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 2014. 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 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 2012 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 on Form 8396.

Who qualifies. You may be eligible for the credit if you were issued a qualified 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 will also show the certified indebtedness amount. Only the interest on that amount qualifies for the credit. See Figuring the Credit, later.

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 or Form 1040NR. Include the credit in your total for Form 1040, line 53, or Form 1040NR, line 50; 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 2013.

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.

Certified indebtedness amount on your MCC

Original amount of your mortgage

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

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:

\[
\frac{100,000}{125,000} = 0.80
\]

\[
7,500 \times 0.80 = 6,000
\]

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. After applying the limit based on the credit rate, your credit generally cannot be more than your tax liability. See the Credit Limit Worksheet in the Form 8396 instructions to calculate the limit based on tax.

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.

Table 2. Effect of Refinancing on Your Credit

<table>
<thead>
<tr>
<th>IF you get a new (reissued) MCC and the amount of your new mortgage is ...</th>
<th>THEN the interest you claim on Form 8396, line 1, is* ...</th>
</tr>
</thead>
<tbody>
<tr>
<td>smaller than or equal to the certified indebtedness amount on the new MCC</td>
<td>all the interest paid during the year on your new mortgage.</td>
</tr>
<tr>
<td>larger than the certified indebtedness amount on the new MCC</td>
<td>interest paid during the year on your new mortgage multiplied by the following fraction.</td>
</tr>
<tr>
<td>certified indebtedness amount on your new MCC</td>
<td>original amount of your mortgage</td>
</tr>
</tbody>
</table>

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

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%).

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

| John | $1,350 – $1,200 | = | $150 |
| George | $900 – $800 | = | $100 |

$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.

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.

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

### 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 decedent's death. Each of these topics is discussed later.

#### 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. See Settlement or closing costs later.

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 adjusted 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 in basis 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 $425 [(122 ÷ 366) × $1,275] the seller paid for you. You can deduct your $425 share of real estate taxes on your return for the year you purchased your home.

**Example 2.** You bought your home on May 3, 2012. 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 2012 for 2011 were $1,375. The taxes due in 2013 for 2012 will be $1,425.

You cannot deduct any of the taxes paid in 2012 because they relate to the 2011 property tax year and you did not own the home until 2012. Instead, you add the $1,375 to the cost (basis) of your home.

You owned the home in 2012 for 243 days (May 3 to December 31), so you can take a tax deduction on your 2013 return of $946 [(243 ÷ 366) × $1,425] paid in 2013 for 2012. You add the remaining $479 ($1,425 – $946) of taxes paid in 2013 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.
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.

<table>
<thead>
<tr>
<th>Increases to Basis</th>
<th>Decreases to Basis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improvements:</td>
<td>• Insurance or other reimbursement for casualty losses</td>
</tr>
<tr>
<td>• Putting an addition on your home</td>
<td>• Deductible casualty loss not covered by insurance</td>
</tr>
<tr>
<td>• Replacing an entire roof</td>
<td>• Payments received for easement or right-of-way granted</td>
</tr>
<tr>
<td>• Paving your driveway</td>
<td>• Depreciation allowed or allowable if home is used for business or rental purposes</td>
</tr>
<tr>
<td>• Installing central air conditioning</td>
<td>• Value of subsidy for energy conservation measure excluded from income</td>
</tr>
<tr>
<td>• Rewiring your home</td>
<td></td>
</tr>
</tbody>
</table>

Assessments for local improvements (see Assessments for local benefits, under What You Can and Cannot Deduct)

Amounts spent to restore damaged property

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 fair market value (FMV) at the time it was given to you, and any gift tax paid on it.

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.

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 (plus or minus any required adjustments, see Adjusted Basis, later) when you dispose of the property will depend on whether you have a gain or a loss.
   a. Your basis for figuring a gain is the same as the donor’s adjusted basis.
   b. Your basis for figuring a loss is the FMV when you received the gift.

If you use the donor’s adjusted basis to figure a gain and it results in a loss, then you must use the FMV (at the time of the gift) to refigure the loss. However, if using the FMV results in a gain, then you neither have 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
Your basis in a home you inherited is generally the fair market value of the home on the date of the decedent’s death or on the alternative valuation date if the personal representative for the estate chooses to use alternative valuation.

If an estate tax return was filed, your basis is generally the value of the home listed on the estate tax return.

If an estate tax return was not filed, your basis is the appraised value of the home at the decedent’s date of death for state inheritance or transmission taxes. Publication 551 and Publication 559, Survivors, Executors, and Administrators, have more information on the basis of inherited property.

If you inherited your home from someone who died in 2010, and the executor of the decedent’s estate made the election to file Form 8939, Allocation of Increase in Basis for Property Acquired From a Decedent, refer to the information provided by the executor or see Publication 4898, Tax Treatment of Property Acquired From a Decedent Dying in 2010.

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.
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 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) for longer than 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.
### Record of Home Improvements

Keep for Your Records

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.

<table>
<thead>
<tr>
<th>Type of Improvement</th>
<th>Date</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Additions:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bedroom</td>
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<tr>
<td>Bathroom</td>
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<td>Deck</td>
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<tr>
<td>Garage</td>
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<td>Patio</td>
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<tr>
<td>Storage shed</td>
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<td>Fireplace</td>
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<tr>
<td>Other</td>
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<tr>
<td><strong>Lawn &amp; Grounds:</strong></td>
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<tr>
<td>Landscaping</td>
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<tr>
<td>Driveway</td>
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<td>Walkway</td>
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<td>Fences</td>
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<td>Retaining wall</td>
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<td>Sprinkler system</td>
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<td>Exterior lighting</td>
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<td><strong>Communications:</strong></td>
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<td>Other</td>
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<tr>
<td><strong>Miscellaneous:</strong></td>
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<tr>
<td>Storm windows and doors</td>
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<tr>
<td>Roof</td>
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<td>Central vacuum</td>
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<tr>
<td>Other</td>
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<td><strong>Heating &amp; Air Conditioning:</strong></td>
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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.

Free help with your tax return. Free help in preparing your return is available nationwide from IRS-certified volunteers. The Volunteer Income Tax Assistance (VITA) program is designed to help low-moderate income, elderly, disabled, and limited English proficient taxpayers. The Tax Counseling for the Elderly (TCE) program is designed to assist taxpayers age 60 and older with their tax returns. Most VITA and TCE sites offer free electronic filing and all volunteers will let you know about credits and deductions you may be entitled to claim. Some VITA and TCE sites provide taxpayers the opportunity to prepare their return with the assistance of an IRS-certified volunteer. To find the nearest VITA or TCE site, visit IRS.gov or call 1-800-906-9887 or 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, visit AARP’s website at www.aarp.org/money/taxaide or call 1-888-227-7669.

For more information on these programs, go to IRS.gov and enter “VITA” in the search box.

Internet. You can access the IRS website at IRS.gov 24 hours a day, 7 days a week. If you have access to an Internet connection at home, you can order forms and publications online, check your refund, or look in the phone book under “Tools.” For a free transcript online at IRS.gov by clicking on Order a Return or Account Transcript under “Tools.” For a transcript by phone, call 1-800-908-9946 and follow the prompts in the recorded message. You will be prompted to provide your SSN or Individual Taxpayer Identification Number (ITIN), date of birth, street address and ZIP code.

- Download forms, including talking tax forms, instructions, and publications.
- Order IRS products.
- Research your tax questions.
- Search publications by topic or keyword.
- Use the 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 IRS Withholding Calculator at www.irs.gov/individuals.
- Determine if Form 6251 (Alternative Minimum Tax—Individuals) must be filed by using our Alternative Minimum Tax (AMT) Assistant available at IRS.gov by typing Alternative Minimum Tax Assistant in the search box.
- 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 (limited to 5 years). 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 most business days in IRS Taxpayer Assistance Centers (TAC). 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. The TTY/TDD telephone number is for individuals who are deaf, hard of hearing, or have a speech disability. These individuals can also access the IRS through relay services such as the Federal Relay Service at www.gsa.gov/fedrelay.
- TeleTax topics. Call 1-800-829-4477 to listen to pre-recorded messages covering various tax topics.
- Checking the status of your 2012 refund. To check the status of your 2012 refund, call 1-800-829-1040 or 1-800-829-4477 (automated Where’s My Refund? information 24 hours a day, 7 days a week). Information about your return will generally be available within 24 hours after the IRS receives your e-filed return, or 4 weeks after you mail your paper return. If you filed Form 8379 with your return, wait 14 weeks (11 weeks if you filed electronically). Have your 2012 tax return handy so you can provide your social security number, your filing status, and the exact whole dollar amount of your refund. Where’s My Refund? will provide an actual personalized refund date as soon as the IRS processes your tax return and approves your refund. Where’s My Refund? includes information for the most recent return filed in the current year and does not include information about amended returns.

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 or record random telephone calls. Another is to ask some callers to complete a short survey at the end of the call.

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

- Products. You can walk in to some post offices, libraries, and IRS offices to pick up certain forms, instructions, and publications. Some IRS offices, libraries, and city and county government offices have a collection of products available to 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 TAC most business days 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 TAC where you can talk with an IRS representative face-to-face. No appointment is necessary—just walk in. Before visiting, check www.irs.gov/localcontacts for hours of operation and services provided. If you have an ongoing, complex tax account problem or a special need, such as a disability, an appointment can be requested by calling your local TAC. You can leave a message and a representative will call you back within 2 business days. All other issues will be handled without an appointment. To call your local TAC, 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
The Taxpayer Advocate Service (TAS) is your voice at the IRS. Its job is to ensure that every taxpayer is treated fairly, and that you know and understand your rights. TAS offers free help to guide you through the often-confusing process of resolving tax problems that you haven’t been able to solve on your own. Remember, the worst thing you can do is nothing at all.

TAS can help if you can’t resolve your problem with the IRS and:

- Your problem is causing financial difficulties for you, your family, or your business.
- You face (or your business is facing) an immediate threat of adverse action.
- You have tried repeatedly to contact the IRS but no one has responded, or the IRS has not responded to you by the date promised.

If you qualify for help, they will do everything they can to get your problem resolved. You will be assigned to one advocate who will be with you at every turn. TAS has offices in every state, the District of Columbia, and Puerto Rico. Although TAS is independent within the IRS, their advocates know how to work with the IRS to get your problems resolved. And its services are always free.

As a taxpayer, you have rights that the IRS must abide by in its dealings with you. The TAS tax toolkit at www.TaxpayerAdvocate.irs.gov can help you understand these rights.

If you think TAS might be able to help you, call your local advocate, whose number is in your phone book and on our website at www.TaxpayerAdvocate.irs.gov. You can also call the toll-free number at 1-877-777-4778. Deaf and hard of hearing individuals who have access to TTY/TDD equipment can call 1-800-829-4059. These individuals can also access the IRS through relay services such as the Federal Relay Service at www.gsa.gov/fedrelay.

TAS also handles large-scale or systemic problems that affect many taxpayers. If you know of one of these broad issues, please report it through the Systemic Advocacy Management System at www.irs.gov/advocate.

Low Income Taxpayer Clinics (LITCs). Low Income Taxpayer Clinics (LITCs) are independent from the IRS. Some clinics serve individuals whose income is below a certain level and who need to resolve a tax problem. These clinics provide professional representation before the IRS or in court on audits, appeals, tax collection disputes, and other issues for free or for a small fee. Some clinics can provide information about taxpayer rights and responsibilities in many different languages for individuals who speak English as a second language. For more information and to find a clinic near you, see the LITC page on www.irs.gov/advocate or IRS Publication 4134, Low Income Taxpayer Clinic List. This publication is also available 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.

Publication 910 is available in various formats, including accessible versions of IRS published products. These formats include American Sign Language (ASL), American English, and alternative formats for individuals with disabilities.

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.
- Internal Revenue Code—Title 26 of the U.S. Code.
- Links to other Internet-based tax research materials.
- 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 2013.
  - The final release will ship the beginning of March 2013.

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).
To help us develop a more useful index, please let us know if you have ideas for index entries. See “Comments and Suggestions” in the “Introduction” for the ways you can reach us.

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