



Note: The form, instructions, or publication you are looking for begins after this coversheet.

Please review the updated information below.

Changes to the 2018 Publication 530 due to the Taxpayer Certainty and Disaster Tax Relief Act of 2019

The Taxpayer Certainty and Disaster Tax Relief Act of 2019 included retroactive tax relief for tax year 2018. The 2018 Publication 530 is not being revised at this time. Instead, see the information below for further details.

- **Expired tax benefits.** Certain tax benefits, including the following, that were set to expire have been extended.
 - The itemized deduction for mortgage insurance premiums has been extended through 2020.
 - The credit for nonbusiness energy property has been extended through 2020.
 - The exclusion from income of discharges of qualified principal residence indebtedness has been extended through 2020.
- **Discharge of qualified principal residence indebtedness before 2021.** Qualified principal residence indebtedness can be excluded from income for discharges before January 1, 2021.
- **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 2018. See Form 5695, Residential Energy Credits, for more information.
- **Mortgage debt forgiveness.** You can exclude from gross income any discharges of qualified principal residence indebtedness made after 2006 and in most cases before 2021. You must reduce the basis of your principal residence (but not below zero) by the amount you exclude. See Form 982, Reduction of Tax Attributes Due to Discharge of Indebtedness (and Section 1082 Basis Adjustment), for more information.

If the retroactive tax relief provided by the Taxpayer Certainty and Disaster Tax Relief Act of 2019 impacts your 2018 tax return, you can find more information about amending a tax return at [IRS.gov/Form1040X](https://www.irs.gov/Form1040X).



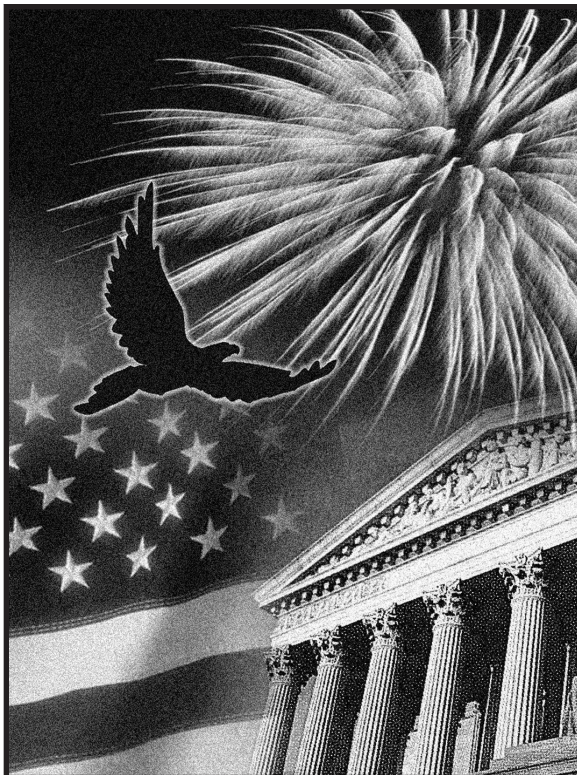
Department
of the
Treasury

Internal
Revenue
Service

Publication 530
Cat. No. 15058K

Tax Information for Homeowners

For use in preparing
2018 Returns



Get forms and other information faster and easier at:

- [IRS.gov](https://www.irs.gov) (English)
- [IRS.gov/Korean](https://www.irs.gov/korean) (한국어)
- [IRS.gov/Spanish](https://www.irs.gov/spanish) (Español)
- [IRS.gov/Russian](https://www.irs.gov/russian) (Русский)
- [IRS.gov/Chinese](https://www.irs.gov/chinese) (中文)
- [IRS.gov/Vietnamese](https://www.irs.gov/vietnamese) (Tiếng Việt)

Contents

What's New	1
Reminders	2
Introduction	2
What You Can and Can't Deduct	2
State and Local Real Estate Taxes	3
Sales Taxes	4
Home Mortgage Interest	4
Mortgage Interest Credit	9
Figuring the Credit	9
Basis	10
Figuring Your Basis	10
Adjusted Basis	12
Keeping Records	12
How To Get Tax Help	14
Index	16

What's New

Expired tax benefits. Certain tax benefits, including the following, expired at the end of 2017.

- The itemized deduction for mortgage insurance premiums;
- The credit for nonbusiness energy property.



At the time this publication went to print, Congress was considering legislation on expired tax benefits. To find out whether legislation extended these and other tax benefits to allow you to claim them on your 2018 return, go to [IRS.gov/Extenders](https://www.irs.gov/Extenders).

Qualified principal residence indebtedness. Qualified principal residence indebtedness can only be excluded from income in 2018 if the discharge is subject to an arrangement that was entered into and evidenced in writing before January 1, 2018. See [Discharges of qualified principal residence indebtedness](#), later, and Form 982 for more information.

Limitation on deduction for home mortgage interest. You may be able to deduct mortgage interest only on the first \$750,000 (\$375,000 if married filing separately) of indebtedness. Higher limitations apply if you are deducting mortgage interest from indebtedness incurred on or before December 15, 2017.

Home equity loan interest. No matter when the indebtedness was incurred, you can no longer deduct the interest from a loan secured by your home to the extent the loan proceeds weren't used to buy, build, or substantially improve your home.

Limitation on the deduction for state and local taxes. You cannot deduct more than \$10,000 (\$5,000 if married filing separately) of your total state and local taxes, including taxes (or general sales taxes, if elected instead of income taxes), real estate taxes, and personal

property taxes. See the Instructions for Schedule A (Form 1040) for more information.

No deduction for foreign taxes paid for real estate. You can no longer deduct foreign taxes you paid on real estate.

Modified and amplified safe harbor method for participants in the 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. Notice 2018-63 extends and preserves application of the Hardest Hit Fund safe harbor to homeowners who may be affected by the new limitation on the deduction for state and local taxes. For details, see [Hardest Hit Fund and Emergency Homeowners' Loan Programs](#) under *What You Can and Can't Deduct*, later, and Notice 2018-63 for additional guidance. Notice 2018-63 is available at [IRS.gov/IRB/2018-34_IRB#NOT-2018-63](#).

2018 Form 1040 redesigned. The 2018 Form 1040 has been redesigned and is supplemented with new Schedules 1 through 6. These additional schedules will be used as needed to complete more complex tax returns. References to Form 1040 and its related schedules have been revised accordingly in this publication.

Reminders

Future developments. For the latest information about developments related to Pub. 530, such as legislation enacted after it was published, go to [IRS.gov/Pub530](#).

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

Repayment of first-time homebuyer credit. Generally, you must repay any credit you claimed for a home you bought if you bought the home in 2008. See Form 5405 and its instructions for details and for exceptions to the repayment rule.

Photographs of missing children. The IRS is a proud partner with the [National Center for Missing & Exploited Children® \(NCMEC\)](#). 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 can't 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 send us comments through [IRS.gov/FormComments](#). Or you can write to:

Internal Revenue Service
Tax Forms and Publications
1111 Constitution Ave. NW, IR-6526
Washington, DC 20224

Although we can't respond individually to each comment received, we do appreciate your feedback and will consider your comments as we revise our tax forms, instructions, and publications.

Ordering forms and publications. Visit [IRS.gov/FormsPubs](#) to download forms and publications. Otherwise, you can go to [IRS.gov/OrderForms](#) to order current and prior-year forms and instructions. Your order should arrive within 10 business days.

Tax questions. If you have a tax question not answered by this publication, check [IRS.gov](#) and [How To Get Tax Help](#) at the end of this publication.

Useful Items

You may want to see:

Publication

- 4681** Canceled Debts, Foreclosures, Repossessions, and Abandonments
- 523** Selling Your Home
- 525** Taxable and Nontaxable Income
- 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)

- Schedule A (Form 1040)** Itemized Deductions
- 5405** Repayment of the First-Time Homebuyer Credit
- 8396** Mortgage Interest Credit
- 982** Reduction of Tax Attributes Due to Discharge of Indebtedness (and Section 1082 Basis Adjustment)

See [How To Get Tax Help](#), near the end of this publication, for information about getting publications and forms.

What You Can and Can't Deduct

To deduct expenses of owning a home, you must file Form 1040, U.S. Individual Income Tax Return, and itemize your deductions on Schedule A (Form 1040). If you itemize, you can't take the standard deduction.

This section explains what expenses you can deduct as a homeowner. It also points out expenses that you can't deduct. There are three primary discussions: real estate taxes, sales taxes, and home mortgage interest.

Generally, your real estate taxes and home mortgage interest 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 [state and local real estate taxes](#) actually paid to the taxing authority and interest that qualifies as [home mortgage interest](#). These are discussed in more detail later.

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

- Mortgage insurance premiums,
- 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 isn't taxable, you still can deduct your real estate taxes and your home mortgage interest. You don't have to reduce your deductions by your nontaxable allowance. For more information, see Pub. 517, Social Security and Other Information for Members of the Clergy and Religious Workers, and Pub. 3, Armed Forces' Tax Guide.

Nondeductible payments. You can't deduct any of the following items.

- Insurance, including fire and comprehensive coverage, mortgage insurance, 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 figure 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 conditions, 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 10 (real property taxes).

You may first allocate amounts paid to mortgage interest up to the amount shown on Form 1098. You may then use any reasonable method to allocate the remaining balance of the payments to real property taxes. Regardless of how you determine the deductible amount under this special safe harbor method, any amount allocated to state or local property taxes is subject to the limitation on the deduction for state and local taxes. However, you aren't required to use this special method to figure your deduction for mortgage interest and real estate taxes on your main home.

For additional guidance, see Notice 2018-63, available at [IRS.gov/irb/2018-34_IRB#NOT-2018-63](https://www.irs.gov/irb/2018-34_IRB#NOT-2018-63).

State and Local 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.



The deduction for state and local taxes, including real estate taxes, is limited to \$10,000 (\$5,000 if married filing separately). See the Instructions for Schedule A (Form 1040) for more information.

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 state and local real estate taxes on Schedule A (Form 1040), line 5b.

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 365	0.3342
4.	Multiply line 1 by line 3. This is your deduction. Enter it on Schedule A (Form 1040), line 5b	\$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 didn't 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 can't 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 Pub. 525, *Taxable and Nontaxable Income*.

Items You Can't Deduct as Real Estate Taxes

The following items aren't deductible as real estate taxes.

Charges for services. An itemized charge for services to specific property or people isn't a tax, even if the charge is paid to the taxing authority. You can't 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) doesn't 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 can't 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 can't show what part of the assessment is for maintenance, repair, or interest charges, you can't 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 can't 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 can't deduct these assessments because the homeowners' association, rather than a state or local government, imposes them.

Foreign taxes you paid on real estate. You can't deduct foreign taxes you paid on real estate.

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 doesn't 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). You **must** check the **box** on Schedule A (Form 1040), line 5a, if you elect this option. 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).



The deduction for state and local taxes, including general sales taxes, if elected instead of income taxes, is limited to \$10,000 (\$5,000 if married filing separately). See the Instructions for Schedule A (Form 1040) for more information.



If you elect to deduct the sales taxes paid on your home, or home building materials, you can't 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. See [Limits on home mortgage interest](#) for more information.

Limits on home mortgage interest. Your deduction for home mortgage interest is subject to a number of limits. If one or more of the following limits applies, see Pub. 936 to figure your deduction. Also see Pub. 936 if you later refinance your mortgage or buy a second home.

Limit for loan proceeds not used to buy, build, or substantially improve your home.

You can only deduct home mortgage interest to the extent that the loan proceeds from your home mortgage are used to buy, build, or substantially improve the home securing the loan. The only exception to this limit is for loans taken out on or before October 13, 1987; the loan proceeds for these loans are treated as having been used to buy, build, or substantially improve the home. See Pub. 936 for more information about loans taken out on or before October 13, 1987.

Limit on loans taken out on or before December 15, 2017. For qualifying debt taken out on or before December 15, 2017, you can only deduct home mortgage interest on up to \$1,000,000 (\$500,000 if you are married filing separately) of that debt. The only exception is for loans taken out on or before October 13, 1987; see Pub. 936 for more information about loans taken out on or before October 13, 1987.

See Pub. 936 to figure your deduction if you have loans taken out on or before December 15, 2017, that exceed \$1,000,000 (\$500,000 if you are married filing separately).

Limit on loans taken out after December 15, 2017.

For qualifying debt taken out after December 15, 2017, you can only deduct home mortgage interest on up to \$750,000 (\$375,000 if you are married filing separately) of that debt. If you also have qualifying debt subject to the \$1,000,000 limitation discussed under [Limit on loans taken out on or before December 15, 2017](#), earlier, the \$750,000 limit for debt taken out on or after December 15, 2017 is reduced by the amount of your qualifying debt subject to the \$1,000,000 limit. An exception exists for certain loans taken out after December 15, 2017, but before April 1, 2018. If the exception applies, your loan may be treated in the same manner as a loan taken out on or before December 15, 2017. See Pub. 936 for more information about this exception.

See Pub. 936 to figure your deduction if you have loans taken out after October 13, 1987 that exceed \$750,000 (\$375,000 if you are married filing separately).

Limit when loans exceed the fair market value of the home.

If the total amount of all mortgages is more than the fair market value of the home, see Pub. 936 to figure your deduction.

Discharges of qualified principal residence indebtedness.

You can exclude from gross income any discharges of qualified principal residence indebtedness made after 2006 and before 2018. You must reduce the basis of your principal residence (but not below zero) by the amount you exclude.

Principal residence. Your principal residence is your *main home*, which 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 2018. 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.

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 Pub. 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, regardless of how the loan is labeled. The loan can be a first or second mortgage, a home improvement loan, a home equity loan, or a refinanced mortgage.



Interest paid on home mortgage proceeds is only deductible to the extent the loan proceeds were used to buy, build, or substantially improve your home.

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](#) (discussed later) applies to points.

Late payment charge on mortgage payment. You can deduct as home mortgage in-

terest a late payment charge if it wasn't 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 isn't 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 aren't redeemable ground rents. You can't deduct them.

Nonredeemable ground rents. Payments on a nonredeemable ground rent aren't 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 Pub. 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.

SBA disaster home loans. Interest paid on disaster home loans from the Small Business

Administration (SBA) is deductible as mortgage interest if the requirements discussed earlier under [Home Mortgage Interest](#) are met.

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 can't 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 weren't 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 weren't 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 aren't 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 can't have borrowed these funds.
7. You use your loan to buy or build your main home.
8. The points were figured 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 also can fully deduct in the year paid points paid on a loan to substantially 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 substantially 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

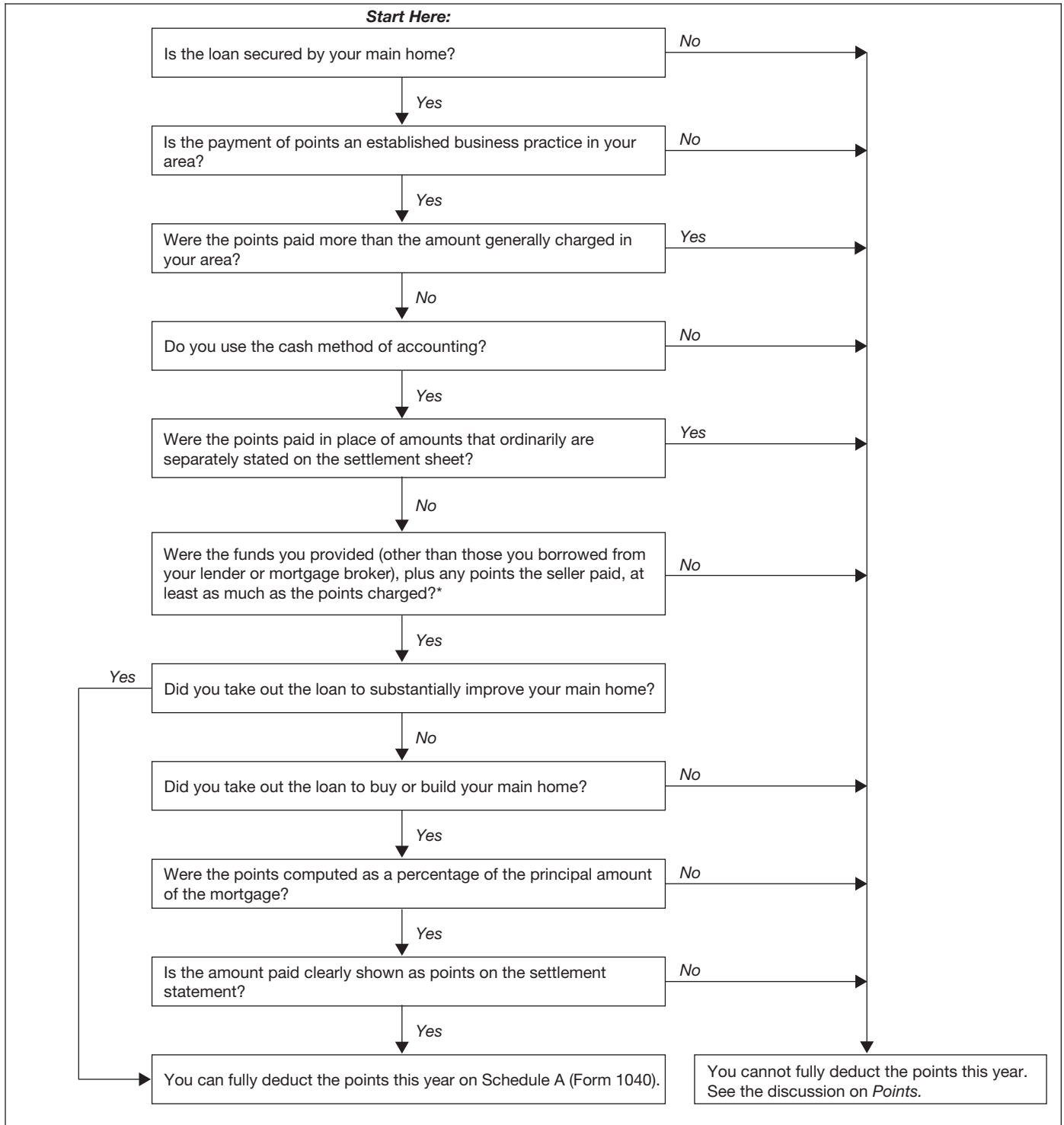
year you paid them with your own funds. You can deduct the rest of the points over the life of the loan.

Points not fully deductible in year paid.

If you don't qualify under the exception to deduct the full amount of points in the year paid (or choose not to do so), see *Points* in Pub. 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?**



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

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

You can't 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 can't deduct these fees as interest. However, they are a selling expense that reduces the seller's amount realized. See Pub. 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 aren't met, the buyer must deduct the points over the life of the loan.

The buyer also must 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 2010 that he had to spread out over the 15-year life of the mortgage. He had deducted \$1,600 of these points through 2017.

Dan prepaid his mortgage in full in 2018. He can deduct the remaining \$1,400 of points in 2018.

Exception. If you refinance the mortgage with the same lender, you can't 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 8a, the home mortgage interest and points reported to you on Form 1098 (discussed next). If you didn't receive a Form 1098, enter your deductible interest on line 8b, and any deductible points on line 8c. 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 8b. 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) 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 isn't, 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 8a, and attach a statement to your return explaining the difference. Write "See attached" to the right of line 8a.

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 2018 should be provided or sent to you by January 31, 2019. If it is mailed, you should allow adequate time to receive it before contacting the mortgage holder. A copy of this form also will be sent to the IRS.

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 4. 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,

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) . . .
state and local real estate taxes	line 5b.
home mortgage interest and points reported on Form 1098	line 8a.
home mortgage interest not reported on Form 1098	line 8b.
points not reported on Form 1098	line 8c.

attach a statement to your paper 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 8b, and write "See attached" to the right of that line.

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 on Form 8396 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 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 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 or Form 1040NR, U.S. Nonresident Alien Income Tax Return. Include the credit in your total for Schedule 3 (Form 1040), line 54, or Form 1040NR, line 51; be sure to check box c and write "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 2018.

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 [Paying Back Credits and Subsidies](#), in Pub. 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.

Mortgage Larger than Certified Indebtedness

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

The fraction won't 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:

$$\begin{array}{rclcl} \frac{\$100,000}{\$125,000} & = & 80\% & (.80) & \\ \$7,500 & \times & .80 & = & \$6,000 \end{array}$$

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 can't be more than \$2,000.

Limit based on tax. After applying the limit based on the credit rate, your credit generally can't be more than your tax liability. See the Credit Limit Worksheet in the Form 8396 instructions to figure 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. 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 can't carry forward any amount more than \$2,000 (or your

Table 2. Effect of Refinancing on Your Credit

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. $\frac{\text{certified indebtedness amount on your new MCC}}{\text{original amount of your mortgage}}$

Keep for Your Records 

*The credit using the new MCC can't be more than the credit using the old MCC. See [New MCC can't increase your credit](#), later.

share of the \$2,000 if you must divide the credit).

Example. In the earlier example under [Deducting 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) can't 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 didn't 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 next to line 2.

New MCC can't increase your credit. The credit that you claim with your new MCC can't 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 doesn't 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 date of 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. Pub. 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 can't 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 can't include in basis the value of your own labor or any other labor for which you didn't 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 *State and Local 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 didn't reimburse you, add those taxes to your basis in the home. You can't 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. Don't include those taxes in your basis. If you didn't reimburse the seller, you must reduce your basis by the amount of those taxes.

Example 1. You bought your home on September 1, 2018. 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 didn't 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, 2018. 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 2018 for 2017 were \$1,375. The taxes due in 2019 for 2018 will be \$1,425.

You can't deduct any of the taxes paid in 2018 because they relate to the 2017 property tax year and you didn't own the home until 2018. Instead, you add the \$1,375 to the cost (basis) of your home.

You owned the home in 2018 for 243 days (May 3 to December 31), so you can take a tax deduction on your 2019 return of \$949 [(243 ÷ 365) × \$1,425] paid in 2019 for 2018. You add the remaining \$476 (\$1,425 – \$949) of taxes paid in 2019 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 can't 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 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.

- Your basis for figuring a gain is the same as the donor's adjusted basis.
- 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 have neither a gain nor a loss.

Example 1. Andrew received a house as a gift from Ishmael (the donor). At the time of the gift, the home had an FMV of \$80,000. Ishmael's adjusted basis was \$100,000. After he received the house, no events occurred to increase or decrease the basis. If Andrew sells the house for \$120,000, he will have a \$20,000 gain because he must use the donor's adjusted basis (\$100,000) at the time of the gift as his basis to figure the gain.

Example 2. Same facts as [Example 1](#), except this time Andrew sells the house for \$70,000. He will have a loss of \$10,000 because he must use the FMV (\$80,000) at the time of the gift as his basis to figure the loss.

Example 3. Same facts as [Example 1](#), except this time Andrew sells the house for

\$90,000. Initially, he figures the gain using Ishmael's adjusted basis (\$100,000), which results in a loss of \$10,000. Because it is a loss, Andrew must now recalculate the loss using the FMV (\$80,000), which results in a gain of \$10,000. So in this situation, Andrew will 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.

Pub. 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 you received a Schedule A (Form 8971) statement from an executor of an estate or other person required to file an estate tax return after July 2015, you may be required to report a basis consistent with the estate tax value of the property.

If an estate tax return wasn't filed, your basis is the appraised value of the home at the decedent's date of death for state inheritance or transmission taxes.

For more information on consistent basis reporting, see [Column \(e\)—Cost or Other Basis](#) in the instructions for Form 8949. For more information on basis of inherited property generally, see Pub. 551 and Pub. 559.

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 Pub. 4895, Tax Treatment of Property Acquired From a Decedent Dying in 2010, available at [IRS.gov/Pub/IRS-Prior/p4895-2011.pdf](https://www.irs.gov/pub/irs-prior/p4895-2011.pdf).

Table 3. Adjusted Basis

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

Increases to Basis	Decreases to Basis
<ul style="list-style-type: none"> • Improvements: <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 • Assessments for local improvements (see Assessments for local benefits, under <i>What You Can and Can't Deduct</i>, earlier) • Amounts spent to restore damaged property 	<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 • Adoption tax benefits

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](#) 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 can't 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 [State and Local Real Estate Taxes](#).

Improvements no longer part of home. Your home's adjusted basis doesn't include the

cost of any improvements that are replaced and are no longer part of the home.

Example. You put wall-to-wall carpeting in your home 15 years ago. Later, you replaced that carpeting with new wall-to-wall carpeting. The cost of the old carpeting you replaced is no longer part of your home's adjusted basis.

Repairs versus improvements. A repair keeps your home in an ordinary, efficient operating condition. It doesn't 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 can't deduct repair costs and generally can't 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](#) as a guide to help you keep track of improvements to your home. Also see [Keeping Records](#), below.

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, don't 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.

Adoption tax benefits. If you claim an adoption credit for the cost of improvements you added to the basis of your home, decrease the basis of your home by the credit allowed. This also applies to amounts you received under an employer's adoption assistance program and excluded from income. For more information see Form 8839, Qualified Adoption Expenses.

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.

Table 4. Record of Home Improvements

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

(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

If you have questions about a tax issue, need help preparing your tax return, or want to download free publications, forms, or instructions, go to [IRS.gov](https://www.irs.gov) and find resources that can help you right away.

Tax reform. Major tax reform legislation impacting individuals, businesses, and tax-exempt entities was enacted in the Tax Cuts and Jobs Act on December 22, 2017. Go to [IRS.gov/TaxReform](https://www.irs.gov/TaxReform) for information and updates on how this legislation affects your taxes.

Preparing and filing your tax return. Find free options to prepare and file your return on [IRS.gov](https://www.irs.gov) or in your local community if you qualify.

The Volunteer Income Tax Assistance (VITA) program offers free tax help to people who generally make \$55,000 or less, persons with disabilities, and limited-English-speaking taxpayers who need help preparing their own tax returns. The Tax Counseling for the Elderly (TCE) program offers free tax help for all taxpayers, particularly those who are 60 years of age and older. TCE volunteers specialize in answering questions about pensions and retirement-related issues unique to seniors.

You can go to [IRS.gov](https://www.irs.gov) to see your options for preparing and filing your return which include the following.

- **Free File.** Go to [IRS.gov/FreeFile](https://www.irs.gov/FreeFile) to see if you qualify to use brand-name software to prepare and *e-file* your federal tax return for free.
- **VITA.** Go to [IRS.gov/VITA](https://www.irs.gov/VITA), download the free IRS2Go app, or call 800-906-9887 to find the nearest VITA location for free tax return preparation.
- **TCE.** Go to [IRS.gov/TCE](https://www.irs.gov/TCE), download the free IRS2Go app, or call 888-227-7669 to find the nearest TCE location for free tax return preparation.



Getting answers to your tax questions. On [IRS.gov](https://www.irs.gov), get answers to your tax questions anytime, anywhere.

- Go to [IRS.gov/Help](https://www.irs.gov/Help) for a variety of tools that will help you get answers to some of the most common tax questions.
- Go to [IRS.gov/ITA](https://www.irs.gov/ITA) for the Interactive Tax Assistant, a tool that will ask you questions on a number of tax law topics and provide answers. You can print the entire interview and the final response for your records.
- Go to [IRS.gov/Pub17](https://www.irs.gov/Pub17) to get Pub. 17, Your Federal Income Tax for Individuals, which features details on tax-saving opportunities, 2018 tax changes, and thousands of interactive links to help you find answers to your questions. View it online in HTML, as a PDF, or download it to your mobile device as an eBook.
- You may also be able to access tax law information in your electronic filing software.

Getting tax forms and publications. Go to [IRS.gov/Forms](https://www.irs.gov/Forms) to view, download, or print all of the forms and publications you may need. You

can also download and view popular tax publications and instructions (including the 1040 instructions) on mobile devices as an eBook at no charge. Or you can go to [IRS.gov/OrderForms](https://www.irs.gov/OrderForms) to place an order and have forms mailed to you within 10 business days.

Access your online account (individual taxpayers only). Go to [IRS.gov/Account](https://www.irs.gov/Account) to securely access information about your federal tax account.

- View the amount you owe, pay online, or set up an online payment agreement.
- Access your tax records online.
- Review the past 24 months of your payment history.
- Go to [IRS.gov/SecureAccess](https://www.irs.gov/SecureAccess) to review the required identity authentication process.

Using direct deposit. The fastest way to receive a tax refund is to combine direct deposit and *IRS e-file*. Direct deposit securely and electronically transfers your refund directly into your financial account. Eight in 10 taxpayers use direct deposit to receive their refund. The IRS issues more than 90% of refunds in less than 21 days.

Refund timing for returns claiming certain credits. The IRS can't issue refunds before mid-February 2019 for returns that claimed the earned income credit (EIC) or the additional child tax credit (ACTC). This applies to the entire refund, not just the portion associated with these credits.

Getting a transcript or copy of a return. The quickest way to get a copy of your tax transcript is to go to [IRS.gov/Transcripts](https://www.irs.gov/Transcripts). Click on either "Get Transcript Online" or "Get Transcript by Mail" to order a copy of your transcript. If you prefer, you can:

- Order your transcript by calling 800-908-9946, or
- Mail Form 4506-T or Form 4506T-EZ (both available on [IRS.gov](https://www.irs.gov)).

Using online tools to help prepare your return. Go to [IRS.gov/Tools](https://www.irs.gov/Tools) for the following.

- The [Earned Income Tax Credit Assistant \(IRS.gov/EITCAssistant\)](https://www.irs.gov/EITCAssistant) determines if you're eligible for the EIC.
- The [Online EIN Application \(IRS.gov/EIN\)](https://www.irs.gov/EIN) helps you get an employer identification number.
- The [IRS Withholding Calculator \(IRS.gov/W4App\)](https://www.irs.gov/W4App) estimates the amount you should have withheld from your paycheck for federal income tax purposes and can help you perform a "paycheck checkup."
- The [First Time Homebuyer Credit Account Look-up \(IRS.gov/HomeBuyer\)](https://www.irs.gov/HomeBuyer) tool provides information on your repayments and account balance.
- The [Sales Tax Deduction Calculator \(IRS.gov/SalesTax\)](https://www.irs.gov/SalesTax) figures the amount you can claim if you itemize deductions on Schedule A (Form 1040), choose not to claim state and local income taxes, and you didn't save your receipts showing the sales tax you paid.

Resolving tax-related identity theft issues.

- The IRS doesn't initiate contact with taxpayers by email or telephone to request personal or financial information. This includes any type of electronic communication, such as text messages and social media channels.
- Go to [IRS.gov/IDProtection](https://www.irs.gov/IDProtection) for information.
- If your SSN has been lost or stolen or you suspect you're a victim of tax-related identity theft, visit [IRS.gov/IdentityTheft](https://www.irs.gov/IdentityTheft) to learn what steps you should take.

Checking on the status of your refund.

- Go to [IRS.gov/Refunds](https://www.irs.gov/Refunds).
- The IRS can't issue refunds before mid-February 2019 for returns that claimed the EIC or the ACTC. This applies to the entire refund, not just the portion associated with these credits.
- Download the official IRS2Go app to your mobile device to check your refund status.
- Call the automated refund hotline at 800-829-1954.

Making a tax payment. The IRS uses the latest encryption technology to ensure your electronic payments are safe and secure. You can make electronic payments online, by phone, and from a mobile device using the IRS2Go app. Paying electronically is quick, easy, and faster than mailing in a check or money order. Go to [IRS.gov/Payments](https://www.irs.gov/Payments) to make a payment using any of the following options.

- **IRS Direct Pay:** Pay your individual tax bill or estimated tax payment directly from your checking or savings account at no cost to you.
- **Debit or credit card:** Choose an approved payment processor to pay online, by phone, and by mobile device.
- **Electronic Funds Withdrawal:** Offered only when filing your federal taxes using tax return preparation software or through a tax professional.
- **Electronic Federal Tax Payment System:** Best option for businesses. Enrollment is required.
- **Check or money order:** Mail your payment to the address listed on the notice or instructions.
- **Cash:** You may be able to pay your taxes with cash at a participating retail store.

What if I can't pay now? Go to [IRS.gov/Payments](https://www.irs.gov/Payments) for more information about your options.

- Apply for an [online payment agreement \(IRS.gov/OFA\)](https://www.irs.gov/OFA) to meet your tax obligation in monthly installments if you can't pay your taxes in full today. Once you complete the online process, you will receive immediate notification of whether your agreement has been approved.
- Use the [Offer in Compromise Pre-Qualifier \(IRS.gov/OIC\)](https://www.irs.gov/OIC) to see if you can settle your tax debt for less than the full amount you owe.

Checking the status of an amended return. Go to [IRS.gov/WMAR](https://www.irs.gov/WMAR) to track the status of Form 1040X amended returns. Please note that it can take up to 3 weeks from the date you mailed your amended return for it to show up in

our system and processing it can take up to 16 weeks.

Understanding an IRS notice or letter. Go to [IRS.gov/Notices](https://www.irs.gov/Notices) to find additional information about responding to an IRS notice or letter.

Contacting your local IRS office. Keep in mind, many questions can be answered on [IRS.gov](https://www.irs.gov) without visiting an IRS Tax Assistance Center (TAC). Go to [IRS.gov/LetUsHelp](https://www.irs.gov/LetUsHelp) for the topics people ask about most. If you still need help, IRS TACs provide tax help when a tax issue can't be handled online or by phone. All TACs now provide service by appointment so you'll know in advance that you can get the service you need without long wait times. Before you visit, go to [IRS.gov/TACLocator](https://www.irs.gov/TACLocator) to find the nearest TAC, check hours, available services, and appointment options. Or, on the IRS2Go app, under the Stay Connected tab, choose the Contact Us option and click on "Local Offices."

Watching IRS videos. The IRS Video portal ([IRSVideos.gov](https://www.irs.gov/IRSVideos.gov)) contains video and audio presentations for individuals, small businesses, and tax professionals.

Getting tax information in other languages. For taxpayers whose native language isn't English, we have the following resources available. Taxpayers can find information on [IRS.gov](https://www.irs.gov) in the following languages.

- [Spanish \(IRS.gov/Spanish\)](https://www.irs.gov/Spanish).
- [Chinese \(IRS.gov/Chinese\)](https://www.irs.gov/Chinese).
- [Vietnamese \(IRS.gov/Vietnamese\)](https://www.irs.gov/Vietnamese).
- [Korean \(IRS.gov/Korean\)](https://www.irs.gov/Korean).
- [Russian \(IRS.gov/Russian\)](https://www.irs.gov/Russian).

The IRS TACs provide over-the-phone interpreter service in over 170 languages, and the service is available free to taxpayers.

The Taxpayer Advocate Service (TAS) Is Here To Help You

What is TAS?

TAS is an *independent* organization within the IRS that helps taxpayers and protects taxpayer rights. Their job is to ensure that every taxpayer is treated fairly and that you know and understand your rights under the [Taxpayer Bill of Rights](https://www.irs.gov/TaxpayerBillOfRights).

How Can You Learn About Your Taxpayer Rights?

The Taxpayer Bill of Rights describes 10 basic rights that all taxpayers have when dealing with the IRS. Go to [TaxpayerAdvocate.IRS.gov](https://www.irs.gov/TaxpayerAdvocate.IRS.gov) to help you understand [what these rights mean to you](https://www.irs.gov/what-these-rights-mean-to-you) and how they apply. These are **your** rights. Know them. Use them.

What Can TAS Do For You?

TAS can help you resolve problems that you can't resolve with the IRS. And their service is free. If you qualify for their assistance, you will be assigned to one advocate who will work with you throughout the process and will do everything possible to resolve your issue. TAS can help you if:

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

How Can You Reach TAS?

TAS has offices [in every state, the District of Columbia, and Puerto Rico](https://www.irs.gov/in-every-state). Your local advocate's number is in your local directory and at [TaxpayerAdvocate.IRS.gov/Contact-Us](https://www.irs.gov/TaxpayerAdvocate.IRS.gov/Contact-Us). You can also call them at 877-777-4778.

How Else Does TAS Help Taxpayers?

TAS works to resolve large-scale problems that affect many taxpayers. If you know of one of these broad issues, please report it to them at [IRS.gov/SAMS](https://www.irs.gov/SAMS).

TAS also has a website, [Tax Reform Changes](https://www.irs.gov/TaxReformChanges), which shows you how the new tax law may change your future tax filings and helps you plan for these changes. The information is categorized by tax topic in the order of the IRS Form 1040. Go to [TaxChanges.us](https://www.irs.gov/TaxChanges.us) for more information.

Low Income Taxpayer Clinics (LITCs)

LITCs are independent from the IRS. LITCs represent individuals whose income is below a certain level and need to resolve tax problems with the IRS, such as audits, appeals, and tax collection disputes. In addition, clinics can provide information about taxpayer rights and responsibilities in different languages for individuals who speak English as a second language. Services are offered for free or a small fee. To find a clinic near you, visit [TaxpayerAdvocate.IRS.gov/LITCmap](https://www.irs.gov/TaxpayerAdvocate.IRS.gov/LITCmap) or see IRS Pub. 4134, [Low Income Taxpayer Clinic List](https://www.irs.gov/LowIncomeTaxpayerClinicList).



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.

<p>A Adjusted basis 12 Assessments: For local benefits 3 Homeowners association 4 Assistance (See Tax help)</p> <hr/> <p>B Basis 10</p> <hr/> <p>C Certificate, mortgage credit 9 Construction 10 Cooperatives 4, 5 Cost basis 10 Credit: Mortgage interest 9</p> <hr/> <p>D Deduction: Home mortgage interest 5 Real estate taxes 3 Disaster loans 5</p> <hr/> <p>E Emergency Homeowners' Loan Program 3 Escrow accounts 3</p> <hr/> <p>F Fire insurance premiums 11</p>	<p>Form: 1098 8 8396 9</p> <hr/> <p>G Gift of home 11 Ground rent 5</p> <hr/> <p>H HFA Hardest Hit Fund 3 Home: Inherited 11 Mortgage interest 4 Purchase of 10 Received as gift 11 Homeowners association assessments 4 House payment 2 Housing allowance, minister or military 2</p> <hr/> <p>I Identity theft 14 Improvements 12, 13 Inheritance 11 Insurance 2, 11 Interest: Home mortgage 4 Prepaid 5</p> <hr/> <p>K Keeping records 12</p>	<p>L Late payment charge 5 Local benefits, assessments for 3</p> <hr/> <p>M MCC (Mortgage credit certificate) 9 Minister's or military housing allowance 2 Mortgage credit certificate (MCC) 9 Mortgage interest: Credit 9 Deduction 5 Late payment charge 5 Paid at settlement 5 Refund 5, 8 Statement 8 Mortgage prepayment penalty 5</p> <hr/> <p>N Nondeductible payments 2, 11</p> <hr/> <p>P Points 5 Prepaid interest 5 Publications (See Tax help)</p> <hr/> <p>R Recordkeeping 12</p>	<p>Refund of: Mortgage interest 5, 8 Real estate taxes 3 Repairs 12</p> <hr/> <p>S Sales taxes 4 SBA Disaster loans 5 Settlement or closing costs: Basis of home 11 Mortgage interest 5 Real estate taxes 3, 10 Stamp taxes 4 State and local real estate taxes 3 Deductible 3 Paid at settlement or closing 3 Refund or rebate 3 Statement, mortgage interest 8</p> <hr/> <p>T Taxes: Real estate 4 Sales taxes 4 State and local real estate 3 Tax help 14 Transfer taxes 4</p> <hr/> <p>W What you can and can't deduct 2</p>
--	---	---	---