Dynamic Chiropractic

A House Is Not a Home

Stanley Greenfield, RHU

With or without a recession, the housing boom was bound to fizzle. Now only a minority of Americans can afford to purchase their own homes. Another factor is that you can no longer depend on the rising value of your home to offset the monthly mortgage payments. Lately the median-priced home in America has been appreciating in value by only 1.3 percent per year. Not like the good old days -- sales have slowed to a crawl.

For the time being, rental is a smarter move if it is only going to be for a short period of time. It used to be that you could buy, and in a relatively short period of time recoup most, if not all, of your investment, and maybe even have a profit. Not so today. The up side of this is that if renting beats buying, then when you are ready to buy, the prices should be down. There are deals out there for the asking, so you should definitely ask.

Now don't get me wrong, I am not advocating that you forget purchasing your dream house. There are some definite tax considerations. It's one of the few tax breaks left to take advantage of. Under the laws of many states, you can protect your house from being seized for payment of business debts, by titling the house as "tenants by the entirety," instead of jointly. For the elderly, you don't have to sell your house in most states to be eligible for Medicaid.

You spend dollars for deductible mortgage interest and the house appreciates in value, and you pay no taxes for the current gain. Keep in mind that even if your house does not appreciate in value, you will build equity In that scenario, home ownership is sort of a forced savings plan. You can shelter the gain almost indefinitely by deferring the capital gain if you buy a more expensive house. After age 55, you get a $125,000 exemption on a house that is sold; this is a great advantage of home ownership.

I have received some letters asking if it is a good idea to pay off the mortgage. Based on the average appreciation of homes today, I would have to say no. Not only is that money in cold storage -- not earning a current rate of return -- but you are giving up a tax break in the deductibility of the mortgage interest. It's true you can access your money via a home equity loan, but the rate of interest is a lot higher, and you are paying a lot to use your own money that is not really working for you. With all things considered, I don't advocate this plan of action. With the recent changes in the tax laws, it's even more important to keep your net taxable income down so that you don't start to lose additional tax exemptions.

We should not end this discussion of mortgages without touching on an area that most pass over lightly -- points. A point is equal to one percent of the mortgage amount, and is payable at the time of settlement, usually by the buyer. How does this affect the APR (annual percentage rate)? That depends on how long you plan on living in this house. The earlier the payoff and the higher the points, the higher the true APR. Likewise, look for a "point-less" mortgage if your stay is to be a short one.

Just what are these things called "points"? You should just consider them as the "finder fee" that you have to pay to get the loan. That's the bad news. The good news is that since January l, 1991, the IRS has not required that you write a separate check in order to have the points deductible, if the mortgage is for your principal residence. By the way, the IRS will not accept a claim of seven points if the going rate in your area is only two points. Use, don't abuse, and be thankful for small favors. Need I say more? I think not.

Your comments and inquiries may be directed to:

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