

## A Note from Paul - Home Ownership Issue

Over the past year, I have received several questions from clients concerning homestead exemptions, deductibility of closing costs and the mortgage interest deduction. To keep you better informed on such issues, I have put together this issue focusing on tax issues surrounding home ownership. In this issue, I will discuss: Ad Valorem Taxes, the Homestead Exemption, Private Mortgage Insurance, the Mortgage Interest Deduction, the deductibility of certain closing costs, and other matters concerning the purchase or sale of your home. Don't forget I am offering 20% off of your next tax return or service for every new client that you refer me. As always, if you have questions, please feel free to call me. - Paul

## A Few Facts on Ad Valorem Tax

Property taxes, also known as ad valorem taxes, are the primary source of funding for county government operations. This revenue source also provided 23 percent of the statewide public school budget in fiscal year 2000 and 63 percent of career technology (vo-tech) center funding.

Property taxes are paid based on the value of a taxpayer's property. The county assessor, a locally-elected officeholder, determines the value of most property in the county for tax

purposes.

Taxpayers owning tangible personal property in the state of Oklahoma must file a property tax return with each county where property was located on Jan. 1 each year on or before the following March 15. Personal property then is assessed at an amount between 10 percent and 15 percent of its fair cash value.

Real property is also assessed as of Jan.

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## The Homestead Exemption

Don't forget about saving money on other taxes such as your property tax. Below are a few tips for filing Homestead Exemption.

### **What is the Homestead Exemption? Does it save me money?**

Homestead Exemption is an exemption of \$1,000 of the assessed valuation of a primary residence you own.

In tax year 2001, this can be a savings of \$88 to \$139 depending on which area of the county you are located. To Qualify:

1. You must be the homeowner of record who resides on the property by January 1.
2. The property deed must be notarized on or before January 1 and filed with

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## Ad Valorem Tax, Continued

1. It is valued at its "use value" -- fair cash value for the highest and best use for which the property was actually used (or classified for use) during the previous calendar year. It is assessed at an amount between 11 percent and 13.5 percent of its fair cash value.

Oklahoma offers a homestead exemption for homeowners. This exemption reduces \$1,000 of the property's assessed value. Taxpayers whose earn \$20,000 or less may receive an additional homestead exemption of \$1,000 (the "double home-

stead exemption").

A taxpayer who is at least 65 years old, or who is totally disabled, and whose income does not exceed \$12,000, may file a claim for property tax relief for the amount of property taxes paid over 1 percent of his or income, up to a maximum of \$200.

Many questions regarding property tax issues are handled at the county level. Each of Oklahoma's 77 counties has a county tax assessor

Filing your homestead exemption will save you money on your property tax bill.

## Homestead Exemptions, Continued

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the County Clerk's Office on or before February 1.

3. You must be a resident of Oklahoma.

Homestead Exemption applications are accepted at any time throughout the year. However, the application must be filed **by March 15** to be approved for the current year. Any application filed after March 15 can not be approved until the following year.

- **In Person:** You may apply for Homestead Exemption at the Tulsa County Assessor's Office between 8:30 a.m. and 5:00 p.m. M-F. Our office is located at 500 S. Denver, Room 215, Tulsa, OK 74103.
- **By Mail:** You may download the Homestead Exemption Application at [http://www.assessor.tulsacounty.org/tca\\_hmstd\\_ex.htm](http://www.assessor.tulsacounty.org/tca_hmstd_ex.htm) and return it by mail to the following address: Jack F. Gordon, Tulsa County Assessor, Attn: Homestead Dept., Tulsa County, Admin. Bldg., Room 215, 500 S. Denver, Tulsa, OK 74103.

### What is the Senior Valuation Limitation?

The Senior Valuation Limitation locks in the taxable value for those who apply and meet the following requirements:

1. Head-of-household (as defined below) must be age 65 or older prior to January 1, of the current year.
2. Head-of-household must be an owner of and occupy the Homestead property on January 1, of the current year.
3. Head-of-household must have a **VALID** Homestead Exemption on file.
4. Gross household income (as defined below) cannot exceed **\$25,000** for the preceding calendar year.
5. The Assessor's Office must complete the Oklahoma Tax Commission Form 994 to verify income for the preceding calendar year.

An application for Senior Valuation Limitation must be filed between January 1 and March 15, or within 30 days from the date issued on the "Notice of Change in Assessed Value of Real Estate".

*Disclosure: The information provided in this newsletter is of a general nature and isn't intended to address the circumstances of any particular individual, business or other entity. Please consult your CPA or Attorney if you have questions or concerns.*

## Private Mortgage Insurance

### The basics of private mortgage insurance (PMI)

If your down payment on a home is less than 20 percent of the appraised value or sale price, you must obtain private mortgage insurance, known as PMI, with your lender. This will enable you to obtain a mortgage with a lower down payment because your lender is now protected against any default on the loan.

PMI charges vary depending on the size of the down payment and the loan, but they typically amount to about one-half of 1 percent of the loan. Mortgage insurance premiums are not tax deductible.

Example:

Let's say you put down 10 percent or \$10,000 on a \$100,000 house. The lender multiplies the 90 percent loan, or \$90,000, by .005. The result is an annual PMI of \$450, which is divided into monthly payments of \$37.50.

Most home buyers need PMI because 20

percent of the sale price on a home is a lot of money; for instance, that's \$20,000 on a \$100,000 home. Home buyers must maintain the PMI premiums until they cross that one-fifth-of-principal threshold, a process that can take years in longer-term mortgages.

### Get rid of private mortgage insurance (PMI).

If you're paying PMI and your home has appreciated in value since the closing of your mortgage, or you have been able to make substantial payments, it's time to do a bit more investigation. The magic number required by lenders to avoid paying private mortgage insurance is 80 percent of the value of your home. Once you've gotten the mortgage down to that, it's time to pay a visit to your lender to discuss canceling this policy.

Keep track of your payments on the principal of the mortgage. When you

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## Tax Implications of Buying or Selling a House

Because you will be able to meet the amount to justify doing so, you probably will itemize your deductions rather than take the standard deduction. Your interest and property taxes will both be deductible. Remember to deduct any interest and taxes paid (not just put aside as a reserve) at closing that may not be reflected on any Form 1098s. Also, don't forget to take any points you paid at closing. You can amortize them over the life of the loan or deduct them all at once on Line 12 of your Schedule A. Remember that other fees paid at closing, such as origination fees or credit checks, are not de-

ductible.

For those of you that have been in your home for a while and now plan to down-size, good news - the capital gains taxes of yesterday no longer apply in most instances. When you sell the house, you can exclude as much as \$250,000 in gain (\$500,000 on a joint return) if it was your principal residence for two of the last five years. The old rules about replacing the house or being age 55 no longer apply. If you qualify, you need never buy another house to get the exclusion.

If you have been in your house a while and still paying PMI, you might have enough equity to stop it

**Shannon Ragsdale, Attorney at Law is offering a Basic Will Packet which includes a Simple Will, Power of Attorney and Advance Directive for only \$299 per couple or \$149 for one. Call today 274-3698.**

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**PMI, Continued**

reach the point where the loan-to-value ratio hits 80 percent, notify the lender that it is time to discontinue the PMI premiums. The Homeowners Protection Act of 1998, which took effect in 1999, requires lenders to tell the buyer at closing how many years and months it will take for them to reach that 80 percent level and cancel PMI. Lenders must automatically cancel PMI when the balance hits 78 percent.

Note: The law does allow lenders to continue requiring PMI all the way down to 50 percent equity for so-called high-risk borrowers. Traditionally, those loans that are considered riskier include reduced documentation loans, in which customers provide less proof of income and other information during the approval process. Loans for people with spotty credit histories and higher debt-to-income ratios also fall into this category. Additionally, some FHA loans require payment of PMI throughout the entire life of the loan.

**In Closing.....**

When considering making the big move, refinancing, or if you are unsure about the tax ramifications of homeownership, please feel free to give me call for a quick, personalized review.