



Four tax strategies for home improvement projects

By **Tobias Salinger**

Financial advisors and tax professionals whose clients are repairing or renovating their home or another real estate property can help them unlock some savings in the process.

The many available strategies for tax savings tied to home improvement begin with the question of whether the client is working on their personal residence, a house or apartment where they live but also operate their own business, or a property that they have invested in as a real estate endeavor, according to certified public accountant Miklos Ringbauer of Los Angeles-based MiklosCPA. And they revolve around regular meetings with clients discussing any plans they have for upgrades and exploring potential tax strategies, he said in an interview.

"That's exactly where the true value of a financial advisor or a tax professional comes in to proactively support the taxpayer," Ringbauer said.

For a personal home, the clients may not know that their home repair could bring savings through the federal energy efficient home improvement credit and the residential clean energy credit. While the rules for each place restrictions on how much and what type of expenses are eligible, more than 3.4 million families received \$8.4 billion in federal tax credits last year on top of reducing their energy bills and qualifying for many state-level credits available to them.

"Sometimes state incentives are much more than the federal government's," Ringbauer said, citing the tax advantages for California taxpayers tied to widespread droughts in the state a couple of years ago. "The local governments and the state encouraged the taxpayers to create these drought-resistant environments, and they gave a lot of financial support."

Even though many basic home improvements such as fixing a leak, painting a bedroom or replacing a broken window pane won't typically be eligible for tax savings, the clients may be forgetting that installing a ramp, rails or a pool, widening doors for a wheelchair or redoing a bathroom could draw deductions as a medical expense.

"Many taxpayers don't think about this," Ringbauer said. "If it increases the value of the home, then you may not be able to take the deduction, but the good news is that it increases your basis."

For clients who run businesses out of their homes, that window replacement for their office area or the creation of an addition to their house to accommodate their company may deliver some itemized savings. In addition, the interest cost of their mortgage, refinancing or home equity line of credit could garner deductions.

"If I needed extra capital, I have the ability to take a deduction on that mortgage payment," Ringbauer said. "It's incredibly valuable to reduce my self-employment business income."

When it comes to real estate investments, the forms claiming home-improvement deductions and credits on a state or federal level "are not easy to fill out," and, "doing things in the wrong bucket or putting it on the wrong line can cost you thousands of dollars," he pointed out. However, they come in very handy in the sale or generational transfer of a property.

The biggest capital investments into the property, such as a roof replacement or the installation of a new bathroom, could result in tax advantages for the owner as well, through so-called cost segregation methods that break up the structure into various components depreciating on different schedules, Ringbauer noted. That may make the financing much more feasible.

"I have positive cash flow, but for tax purposes, I wiped out my income in the process. And then even throwing a tax credit on top of it can be significantly beneficial for a real estate investor," he said, noting that there is a distinction for the IRS and other agencies between the large capital projects and standard repairs such as fixing a door. "It's very important, and that's where many taxpayers, especially if they are self-preparing returns, run into challenges."