Quickshare:

10 Common Errors Home Owners Make When Filing Taxes

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Don't rouse the IRS or pay more taxes than necessary — know the score on each home tax deduction and credit.

Sin #1: Deducting the wrong year for property taxes

You take a tax deduction for property taxes in the year you (or the holder of your escrow account) actually paid them. Some taxing authorities work a year behind — that is, you're not billed for 2011 property taxes until 2012. But that's irrelevant to the feds.

Enter on your federal forms whatever amount you actually paid in 2011, no matter what the date is on your tax bill. Dave Hampton, CPA, tax manager at the Cincinnati accounting firm of Burke & Schindler, has seen home owners confuse payments for different years and claim the incorrect amount.

Sin #2: Confusing escrow amount for actual taxes paid

If your lender escrows funds to pay your property taxes, don't just deduct the amount escrowed, says Bob Meighan, CPA and vice president at TurboTax in San Diego. The regular amount you pay into your escrow account each month to cover property taxes is probably a little more or a little less than your property tax bill. Your lender will adjust the amount every year or so to realign the two.

For example, your tax bill might be $1,200, but your lender may have collected $1,100 or $1,300 in escrow over the year. Deduct only $1,200. Your lender will send you an official statement listing the actual taxes paid. Use that. Don't just add up 12 months of escrow property tax payments.

Sin #3: Deducting points paid to refinance

Deduct points you paid your lender to secure your mortgage in full for the year you bought your home. However, when you refinance, says Meighan, you must deduct points over the life of your new loan. If you paid $2,000 in points to refinance into a 15-year mortgage, your tax deduction is $133 per year.

Sin #4: Failing to deduct private mortgage insurance

Lenders require home buyers with a down payment of less than 20% to purchase private mortgage insurance (PMI). Avoid the common mistake of forgetting to deduct your PMI payments. However, note the deduction begins to phase out once your adjusted gross income reaches $100,000 and disappears entirely when your AGI surpasses $109,000. Also, unless Congress acts to extend the PMI deduction again, 2011 is the last tax year for which you can take this deduction.

Sin #5: Misjudging the home office tax deduction

This deduction may not be as good as it seems. It's complicated, often doesn't amount to much of a deduction, has to be recaptured if you turn a profit when you sell your home, and can pique the IRS's interest in your return. Hampton's advice: Claim it only if it's worth those drawbacks. If so, here's what to know about what you can write off.

Sin #6: Missing the first-time home buyer tax credit

While the original home buyer tax credit deadline passed in April 2010 (and isn't available in 2012), military families and some government workers on assignment outside the U.S. were given an extension until April 30, 2011, to get a home under contract and take advantage of up to $8,000 in tax credits for first-time buyers and $6,500 in credits for repeat buyers.

It applies to any individual (and, if married, the individual's spouse) who serves on qualified official extended duty service outside of the United States for at least 90 days during the period beginning after Dec. 31, 2008, and ending before May 1, 2010.

Sin #7: Failing to track home-related expenses

If the IRS comes a-knockin', don't be scrambling to compile your records. Many people forget to track home office and home maintenance and repair expenses, says Meighan. File away documents as you go. For example, save each manufacturer's certification statement for energy tax credits, insurance company statements for PMI, and lender or government statements to confirm property taxes paid.

Sin #8: Forgetting to keep track of capital gains

If you sold your main home last year, don't forget to pay capital gains taxes on any profit. However, you can exclude $250,000 (or $500,000 if you're a married couple) of any profits from taxes. So if you bought a home for $100,000 and sold it for $400,000, your capital gains are $300,000. If you're single, you owe taxes on $50,000 of gains. However, there are minimum time limits for holding property to take advantage of the exclusions, and other details. Consult IRS Publication 523.

Sin #9: Filing incorrectly for energy tax credits

If you made any eligible improvement, fill out Form 5695. Part I, which covers the 30%/$1,500 credit for such items as insulation and windows, is fairly straightforward. But Part II, which covers the 30%/no-limit items such as geothermal heat pumps, can be incredibly complex and involves crosschecking with half a dozen other IRS forms. Read the instructions carefully.

Sin #10: Claiming too much for the mortgage interest tax deduction

You can deduct mortgage interest only up to $1 million of mortgage debt, says Meighan. If you have $1.2 million in mortgage debt, for example, deduct only the mortgage interest attributable to the first $1 million.

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