

**Miscellaneous real estate facts 11 1984**  
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WHEN DOES \$1,029 = \$720???

When you're comparing rental payments with the REAL cost of home ownership!

The acquisition of a home has long been considered the largest purchase you will ever make. It is not, however, where the greatest portion of your income is spent. Taxes take the biggest bite. With tax time fast approaching, now is an excellent time to review how to calculate the REAL cost of buying your home, taking into account the tax write-off for interest and tax payments.

Bill and Mary Smith purchased a home in Bethesda six years ago for \$100,000. They had been renting and were concerned about the increase in payments, but after the twins were born they needed another bedroom, yard, good schools, etc. Bill had just received a promotion and the 9% fixed rate 30-year loan seemed workable.

As Bill prepared his 1983 taxes this year he did some calculations and discovered he and Mary were actually paying almost the same amount to own their home as they would have if they had continued renting the smaller house at \$700 a month.

This is how he arrived at the happy conclusion:

1983 Monthly Costs

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Mortgage payment	\$804
(Includes principal interest)	
Taxes	175
Insurance	50
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Total	\$1,029

Of this amount, both the taxes and the interest payments are tax deductible. The Smith's were surprised to discover how much of their mortgage in year six was spent on interest.

Real Estate Tax Deductions for 1983

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Interest (year 6)	\$8,586
Taxes (\$175 x 12)	1,980
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Total                      \$10,566

Bill's income this year was \$45, 801. According to the table on the next page, the amount the Smith's owe in tax is \$10,332. BUT, after Bill deducts the \$10,566 his taxable income is lowered to \$35,235 and his taxes are reduced to \$6,624 – a savings of \$3,710!

Income	\$45,801	Taxes	\$10,334
Less deduction of 10,566			
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Taxable income	\$35,235	Taxes	6,624
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		Saving	\$3,710
			(\$309 monthly)

Remember the Smith's monthly payment of \$1,029? The tax savings of \$309 lowers the REAL cost of their home to just \$720 per month. Remember the \$700 they had been paying to rent their first house? They are actually able to own a larger home for very close to the same annual cost.

If you would like an amortization table showing interest payments for the length of your loan, or help in making any of the calculations, give Gary Ditto a call at home, 949-0489 or at his office, 652-4570. He will be happy to answer your questions.