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Itemize Your Deductions

One way to use your house as a cash cow, without tapping any equity, is to get Uncle Sam to underwrite what is probably the biggest investment you have ever made in your life. Simply itemize your deductions.

Unfortunately, most people actually take the standard deduction on their tax returns. The IRS says that only about 35 percent of returns filed contained itemized deductions as opposed to the standard deduction. That is a big mistake, because in 2007 the standard deduction was \$5,350 dollars for single individuals, \$10,700 dollars for married couples, and \$7,850 dollars for those designated as head of household. But if you were using your home to take every tax break and deduction you are entitled to, chances are your deductions would far exceed the standard rate if you itemize them.

For example, nationwide, the average person pays about \$5,000 dollars in mortgage interest. (Some of you – on the East and West Coasts, in particular – may be saying: “\$5,000! I pay that in a couple of months!” So your mortgage interest is obviously far in excess of the national average.) Also, property taxes on average nationwide are about \$1,500 dollars. So the idea here is simple: do not miss out on the opportunity to take every deduction for which you are legally qualified with regard to your home. If you follow my advice, you will truly be leveraging your house and using the value of your house wisely.

Unfortunately, like I said, most people do not do it and Uncle Sam tells us that U.S. taxpayers lose about \$1 billion in the aggregate as a result. Can you imagine? Millions of Americans collectively lose \$1 billion a year just because they have taken the standard deduction. And I know why some of you take that standard deduction. It's because you are rushing. You procrastinated, and you're filing your taxes at the last minute. Haven't we all seen the television with those long lines of people standing in line at the post office on April 15, trying to beat the midnight filing deadline?

I understand part of this insanity though. Tax forms are complicated and they take so much time. The IRS says it takes about 29 hours to fill out your taxes if you do it yourself. I turn that headache over to a CPA and call it a day! But no matter whether you do your own taxes or hire a professional, just be sure to use that house as a piggy bank (wisely, of course) whenever you can.