EXECUTIVE FETED . . . H. A. Aizpuru, trafic manager for International Sea Van, Inc., 2805 Columbia St., is shown above accepting a farewell gift from members of his staff on the eve of his departure for Lausanne, Switzerland where International Sea Van, Inc. maintains their European offices. Making the presentation is Mrs. L. E. Thorne of Lomita. Others present include from left to right: Mrs. Richard Eyster of Lomita, Miss Audrey Syversrud of Redondo Beach, and Mrs. Warren Scoggan of San Pedro.

Cost of Maintaining Home A Tax Deductible Item

(This is the thirteenth of a series oarticles on Federal and California income tax filing. This information has been provided by the Committee on Taxation of The California Society of Certified Public Accountants in cooperation with the American Institute of Certified Public Accountants.)

A home owner is usually in a more advantageous tax position than a person who rents. This is because home owners who elect to itemize their deductions, rather than use the standard deduction, are allowed to deduct interest and property taxes paid during the year as well as any damages to their homes, trees, etc., resulting from fire, storm, earthquake, or other casualty.

Such deductions are deductible only if the election is made to itemize deductions rather than use the standard deduction. These are to be listed on Page 2 of Form 1040 (California 540).

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If you live in your own home, and do not either rent or use any part of it for business purposes, remember that expenses such as insurance and repairs are personal and are not deductible.

If you've just bought a home this year, you can deduct on your federal return the portion of the real estate taxes you may have had to pay at settlement. (For California purposes, such taxes represent cost of the property.)

Your attorney and title search fees and other settlement costs are not deductible but should be added to the cost basis of the property.

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To avoid future tax complications if and when you sell, start now to keep a record of any additional costs that resule in permanent improvements to your house and grounds.

If you sold your house this year, you may have a number of problems. First, determine if you had a gain or loss. If you had a gain on the sale and you owned the property more than six months, it is considered a long-term capital gain on which the federal tax will not exceed 25%. (For California purposes the amount of gain to be included in gross income is now determined in the same manner as for federal purposes.) If you had a loss on the sale of your home, such loss is not deductible on your income tax return.

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The law has a special provision to help the home owner who sells his principal residence at a gain, and purchases another within a year before or after the sale.

If you construct your new house, the period of replacement begins one year before date of sale and ends 18 months after the sale date — provided you started construction before 12 months after the date of sale. In this case, the gain is taxed only to the extent the "adjusted sale price" (sales price less expenses of sale, "fixing up expenses," etc.) of the old residence exceeds the cost of the new one. (For California purposes the expenses of sale, "fixing up expense," etc. are disregarded in this computation.)

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For example, if the "adjusted sales price" of the old residence was $20,000 and there is a $5000 gain, none of the gain is taxable now if the new residence purchased costs at least $20,000. If it costs $19,000, then gain of $1000 will be taxed currently.

Note that this special provision ordinarily results in only a postponement of tax. Any portion of the gain not taxed is used to decrease the cost basis of the new house. The gain ordinarily would be taxed when this house is ultimately sold — unless again postponed by replacement. These rules are mandatory—the taxpayer may not choose between reporting a gain or postponing it.

If you sold your house during the year and haven't yet purchased another— but plan to, next year within the period allowed — give the details on this schedule and report no gain.

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When you do replace within the required period next year, you should advise the District Director and the California Franchise Tax Board in writing, giving full details. If you subsequently don't purchase or reinvest to the extent required, the gain must be reported in the year of sale by filing an amended return.

If you rent your house in whole or in part to others, you must report all rents received. You are entitled to deduct all related expenses. These expenses are not "itemized" on Page 2 of the return but, instead, are deducted from the rent received. Property taxes, interest, depreciation, insurance, repairs, collection fees, commissions, fees for legal advice, and casualty losses are typical.

If you use part of your home for business purposes, you may allocate a portion of your interest and property taxes to the business. You may also charge the business for a proportion of the repairs, insurance, depreciation and other expenses related to that portion of your home. These items are deductible in arriving at adjusted gross income.