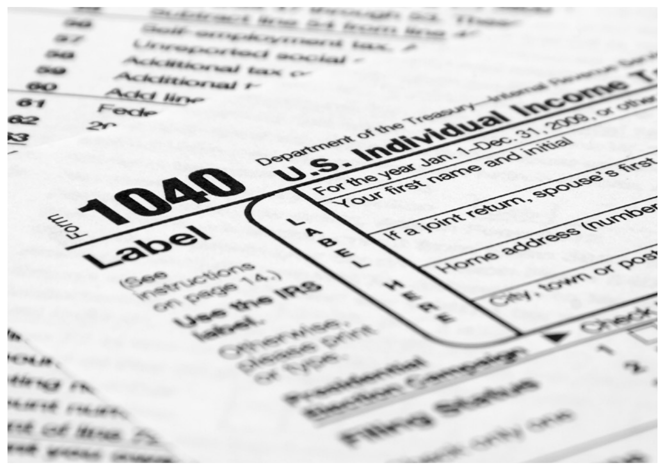
# Income Tax Checklist for Homebuyers

Prepare and file your federal income tax returns in a way that supports your home buying goals!

Your federal income return is a very important part of your home loan application.

Your tax return is like your personal financial statement. Whatever you tell the IRS is true about your finances for tax filing purpoes must match what you tell your loan officer when you apply for a home loan. You will normally be required to provide two to three years of tax returns in support of your home loan application and your lender will verify the returns you provide with the IRS.



**Tell your tax preparer that you are planning to purchase a home and that getting the largest possible income tax refund is NOT your only goal.**

Review this checklist when you meet with your tax prepaprer:

- [ ] If you are self-employed or own a business, your home buying power is based on the average of your net, taxable income over the last two years. This is NOT the gross or total business income you report on Schedule C of your tax return. It is the income left over (your "profit") after you deduct all of your business expenses, this is also your taxable income. So, if you decide to reduce the taxes you have to pay the IRS by claiming a lot of business expenses then your home buying power will also be reduced, usually very significantly and often to the point where it is not possible to purchase a home. **Here's a tip:** Before you prepare your tax return talk with your home loan advisor about the net, taxable income you need to report in order to qualify for the home loan you want. Also, the net business income you report should be stable or increasing from one year to the next. If the net business income in the most recent year is less (declining) than the previous year, then instead of averaging the income, the most recent, lower income will be used to approve your home loan.

- [ ] If you have a hobby-type business (e.g. eBay sales, multi-level marketing) and claim a business loss from this activity on your tax return, then that loss will be deducted from your W2 wages and your home buying power will be reduced.

- [ ] If you receive W2 wages and decide to itemize your tax deductions and claim large amounts of unreimbursed employee expenses (called "2106 Expenses"), then these expenses will be deducted from your qualifying income on your home loan application and your home buying power will reduced.

- [ ] If you decide to lower your taxable income by claiming the mortgage interest deduction and or property tax deduction on behalf of someone else, then you are declaring to the IRS that you are obligated on a mortgage and own a home. You will have to explain and "untangle" this declaration as part of your home loan application since the underwriter will assume that you have an existing mortgage debt. This can be very difficult, time consuming and expensive since you may need to refile your tax return. **Also, if you hope to use government first-time home buyer programs, your application will usually be denied since you reported to the IRS that you already own a home.**

- [ ] You must prepare and file a tax return for each year you have a tax liability. And if you owe taxes, they must be paid. If you have untiled tax returns or if you have large unapid tax bills it will be difficult perhaps even impossible to purchase a home until the returns are filed and the taxes paid.

- [ ] Even if you file your return electronically, ask your tax preparer to give you a paper copy of your complete tax return including all schedules, W2s and 1099 forms -you'll need these for your home loan application.

- [ ] If your primary sources of income are modest levels of W2 wages, then claiming the Standard Deduction is usually the best way to support your home buying goals and get the largest tax refund. If your tax preparer suggests itemizing your deductions by filing a Schedule A-ask a lot of questions about the deductions he or she is proposing. Will these deductions support your home buying goals?

- [ ] Generally your tax filing tax status should match your marital status on your home loan application unless there has been a change since you filed your return (e.g. recently married, widowed or divorced). If your tax preparer recommends that you file your return seperately from your spouse, or with a different address from your spouse, or as head of household then you should ask why they are making this recommendation and how it will benefit your tax filing. Keep in mind that these kinds of discrpencies will often raise questions on your home loan application and require additional documentation and explanations.

- [ ] Make sure the final return your tax preparer files on your behalf (especially if it's filed electronically) matches the return you discussed and approved. Remember, your tax preparer's goal is to get you the largest tax refund so that you'll be happy with their service and return next year. But you have an additional goal of being ready to purchase a home. Don't let your tax preparer undermine you home buying options by filing a return that hurts your home buying power. Always choose a qualified and reputable tax preparer that listens to all of your financial and life goals.

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## What If You Already Filed Your Return?

If you already filed your tax return and find that it does not support your home buying goals, then you do have some options including:

- [ ] Filing an amendment to your tax return. If needed, you can report additional net business or self-employment income, remove unsupported or unhelpful deductions like the mortgage interest, or unreimbursed employee expenses. Normally, this will result in an increased tax liability which must be paid before your home loan is approved. Discuss the costs and benefits of filing an amended return with your tax preparer and home loan advisor.

- [ ] If your primary source of income are W2 wages, then most mortgage lenders will now accept a "W2 Only" loan application that does not require the submission of actual tax returns, just verification of your W2 income. But this option is generally more expensive and will not work if you are planning to use government-sponsored first-time home buyer programs since prior-year tax returns are always required as part of your application. And the W2-Only option will not work for self-employed borrowers.

- [ ] Talk with your lender about "Non-QM" loan programs. These types of loans give lenders the flexibility to approve borrowers based on alternative sources of income documentation. But you'll normally be required to contribute a 20% to 30% down payment and accept higher interest rates and fees. And these types of loans are not compatible with government-sponsored first-time home buyer programs.