

## Homeowner's Exemption

When I was a boy my Dad always said that most people live from paycheck to paycheck. The average person has little opportunity to make any important investments, particularly when they are first starting. "They are too busy making a living to make any money" was one of his favorite sayings. They are severely limited in their choices. Typically the best investment opportunity for the new family is to purchase and own their home.

The first thing a homeowner needs to understand is that after living in their home for two years there is no taxes on the gain up to about 250,000 for single owners and \$500,000 for married couples. And there is no obligation to reinvest the proceeds. I am not unaware of any other investment where there is no State or Federal income tax. The importance of this cannot be overstated! In addition the monthly interest paid on the loan can be deducted from your income to lower your income taxes. So in effect the government is subsidizing your house payments and lowering the interest rate on your home loan while you can pay down the principle balance.

When you couple the government subsidy with today's rapidly rising homes prices then it is clear that while the beginning investor may be limited to their investment choices, **they do have access to maybe they best investment available anywhere.** I would advise a beginning home owner to sell their home every two years in order to take advantage of the tax exemption. By reinvesting the sales proceeds into the next home it increases the likelihood of owning your home outright in the not so far away future. I call this the "Home Owner Plan."

One thing that can ruin this plan is buying a defective property. While investing in your home is a good idea, it will not make up for choosing a problem property. Always keep in mind you make your money when you buy, not when you sell. If you buy a home with unknown defects then your "home owner plan" may be postponed. Be sure to look at a minimum of 20 homes before you make your first offer to learn the property values. Be sure to learn the neighborhood to know where the schools and shopping are located.

Immediately after the offer is accepted and before any effort is put into closing the transaction you should get the best home inspection available. Always use a California Real Estate Inspection Association Inspector Member to be assured of obtaining an inspection based on the State Standards; you do not want to buy someone else's problems. The inspector will evaluate each of the systems in the home to determine their condition. This information can be used to develop an estimate of how much money it will cost to repair the defective systems or possibly replace those systems in the future. Remember, these costs are not reflected in the lender's appraisal but they do directly affect the value of the property. I characterize a home inspection as a buyer's supplemental appraisal. Sometimes a home inspection turns up a defect that may be too costly to repair and may terminate the transaction but usually it provides the investor with a guide to help plan which issues to repair and which issues to defer. This helps the investor to budget their money. In addition, the issues in the home inspection can be used to negotiate with the seller for a better price. Home inspections are almost always free to the buyer. After the

home inspection is complete and the issues negotiated with the seller the transaction process can be completed with a high probability of a successful closing. "**You Make Your Money When You Buy, Not When You Sell!**" Following these steps will increase your probability of owning your home outright in the foreseeable future.

If you have any questions about Home Inspections I can be reached at **20/20 Home Inspections 209-613-1430** or **emailed at HomeInspect2020@aol.com**. My website is [www.HomeInspect2020@aol.com](http://www.HomeInspect2020@aol.com) And remember; always use an Inspector Member of the California Real Estate Inspection Association to be sure you are getting the best inspection possible. CREIA.org. Good Luck in all your investments.