

Did You Know Your Paycheck Gets Bigger when you buy a House?

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Amazing, but true. Buying a home adds to your "take home" income – possibly by several hundred dollars or more – simply by increasing the number of federal income tax withholding allowances on Form W-4.

- Here's how it works.

New home buyers generally find that their pre-purchase withholding rate will result in overpayment of taxes, if they don't adjust their withholding allowances. That's because they haven't reduced their withholding to compensate for reduced taxes caused by deductions for mortgage interest and property taxes – items that are currently deductible at income tax filing time.

- See for yourself.

A first-year homeowner who paid \$9,000 in interest and real estate taxes, and who itemized deductions in a 28% tax bracket, would have overwithheld and would get a large refund next year. In this case, \$2,520.

- Enjoy your bigger paycheck.

Increasing the number of withholding allowances, on the other hand, reduces the amount withheld to pay future taxes – which puts your tax refund in your paycheck today, not at the end of the year. With the additional cash in your hands instead of in the government's, you'll have more cash to meet payments and live on.

- Be sure to check the tax rules.

The rules for claiming allowances are simple. Working couples filing jointly figure withholding allowances on combined wage income and may allocate them between employers. On separate returns, the allowances must be figured separately. And if you work for two or more employers at the same time, you may claim withholding allowances from only one employer.