

How Do I Figure My Finances

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There's no point wasting time and energy house-hunting before you know what you can afford. So your next step is to assess your finances:

- Compare Buying with Renting
- Find out about interest rates
- Understand your closing costs
- Figure out your income, debt and down payment
- Calculate how much home you can afford! Does it Pay to Buy a Home or Simply to Rent?

If, like most first-time buyers, you are presently renting, it's easy to calculate your cost - simply, the monthly rent you pay. (Utilities, phone, cable, and other costs can be ignored in this comparison because they'll be approximately the same whether you rent or buy.) But calculating the cost of homeownership is much more complicated, because income tax considerations affect your bottom line. And there is, in addition, the uncertainty about how much the value of your home will rise (or even fall) in the coming years. As a tenant, you may be taking a standard deduction on your income tax return. This is the time to judge how that standard deduction stacks up against the amount you'd be able to subtract from income if, like most homeowners, you itemized deductions instead. Once you itemize, you can deduct:

- Home mortgage interest;
- All real estate taxes on any property you own;
- Your state income taxes;
- Charitable contributions;
- Medical and dental expenses that exceed 7.5% of your income;
- Personal property taxes if your state has them; and most important
- Certain moving expenses

At the start of a mortgage repayment schedule, when the debt hasn't been reduced yet, almost all of your monthly payment goes toward interest. A bit goes toward reducing principal (the amount borrowed), so that the next month you're borrowing a bit less, and owe a little less interest. That allows more of your next payment to go toward reducing principal. However, this process is very slow in the beginning and the interest portion remains high for many years. Between the mortgage interest and the property tax deductions, you can figure that Uncle Sam is shouldering part of your monthly mortgage payment - 28% of it, in fact, if that's your tax bracket. Your state income tax bracket can also be added to that, before you calculate how much you save on income tax as a homeowner.