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Smart Tax Tips for Second-Home Owners

(May 24, 2006) -- Taxes can be tricky for owners of second-homes and investment properties.

And with 6.8 million vacation homes in the United States — on top of the more than 37 million investment units — it's safe to say that there are plenty of owners looking for some smart tax advice.

Here are four tips that will help owners avoid paying too much money to Uncle Sam. For more detailed information, consult a tax expert.

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- **Pay cash.** You can duck the rules on passive losses by paying cash for the property.
- **Be mindful of mortgages.** Don't take out a mortgage out on a paid-up house and use the cash to buy a second home. The IRS doesn't always allow these payments to be deducted as personal mortgage interest.
- **Be an involved landlord.** Living in a different state and hiring someone to pick out tenants will cause the IRS to take a closer look. If you want to take deductions, you must actively participate in the management.
- **Use the property.** If you stay in the house for 15 days or more, not including days you're really working on the properties, and for more than 10 percent of the total days it's in use, it becomes a mixed-use property instead of a pure investment property. You'll be able to claim itemized deductions for a large portion of the mortgage interest and taxes.]

Source: *Forbes*, Janet Novack (06/05/2006)

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