

The Tax Advantages of Buying a Second Home in Costa Rica

Posted: Jul 02, 2009 |

A good number of people sticks to the belief that owning a second or a vacation home is costly, and is only reserved for the rich and famous. However, what seems to not get some fame, though, is the fact that by having a second home, you can get a number of tax advantages. How? This article will walk you through it. In owning a second home, you surely will have a good number of purposes for the property. May it be a vacation house up the hills, in an island, by the ocean, or in the woods, you surely have a clear idea how you'll make the most out of it. Fortunately, these uses will help you determine which types of tax breaks you can get.

If you plan to use it as a residential home, meaning you're planning to stay there, and have the place for personal uses, for more than fourteen days a year or more than ten percent of the total days the house gets rented out, you can deduct mortgage debt interests of up to a million dollars on both of your personal residences and up to almost a hundred thousand dollars additional for home equity. This is due to the law provisioned fact that generally, property taxes are deductible, and with no consideration to the number you have.

The other common use for second homes is as rental property. This means the owner rents out the place for more than fourteen days a year and doesn't use or stay there for more than fourteen days or more than ten percent of the total number of rental days. This, in turn, will require you to report the income, and minus the operational expenses you've had during the rental period, including maintenance, insurance, advertising, management fees, upkeep, mortgage interest, depreciation, and taxes. Just remember, though, that if your vacation house is considered as a rental property, your expenses couldn't be bigger than the income.

However, if you rent your second home out for less than fourteen days a year, and use it longer than that, it would still be considered as a residential home, and you would not need to report the rental income you've received in your tax returns, therefore letting you keep all of it. However, what you just need to remember before buying a second home is that your interest is always fully deductible. Plus, the "second home" could not even be a strict property planted on the ground. It could be any asset, recreational vehicle, or a house boat as long as it has all the requirements of the IRS to be considered as a "house". These requirements include a functional kitchen, bedroom, and bathroom, and of course the at least fourteen days of stay per year.

These tax breaks could be good advantages of owning a second home, apart from having an instant place to stay at for vacations, especially during these economically problematic days. Just remember the conditions well, and you're all set to have tax cuts and additional vacation budget.