Example #3 continued

Income:	With Current Mortgage	With Reverse Mortgage
Pension	$500	$500
Social Security	$1,400	$1,400
Reverse mortgage	$0	$288
Total Income	$1,900	$2,188

Expenses:	With Current Mortgage	With Reverse Mortgage
Mortgage	$900	$0
Other expenses	$1,400	$1,400
Total expenses	$2,300	$1,400
Shortage/surplus	($400)	$788

Neither the lump sum nor the monthly income generated by the reverse mortgage is taxable to William.

Example #4: *Hazel, a widow age 85, owns her home outright. She has lived in the two-story home for her entire adult life. The only bathroom in her house is on the second floor and she is having difficulty climbing the steps. She wants her daughter to eventually have the house, but is considering selling it to make her own living arrangements easier. Instead, Hazel takes out a reverse mortgage and uses the funds to remodel the first floor of her home by turning the den into a bedroom and adding a bathroom. The money Hazel receives from the reverse mortgage is not taxable to her.*

Possible Risks

- As you get money through your reverse mortgage, interest is added onto the balance you owe each month. That means the amount you owe grows as the interest on your loan adds up over time. If your intent is to leave the house to your heirs, you will use up some, if not all, of the equity in your home.
- The closing costs for a reverse mortgage can be as high or higher than a regular home loan.

- A reverse mortgage is generally required to be repaid within six months of the death of the last owner.
- When interest rates rise, the cost of the reverse mortgage may increase. Lenders may add a monthly servicing fee to account for rising interest rates which are added to the loan balance.
- If you qualify for public assistance you may need to include income or assets generated from reverse mortgages.
- The death of one of the owners or borrowers can cause the reverse mortgage to become due, even though the surviving spouse wishes to continue to live in the home.

Contact Us

There are many events that occur during the year that can affect your tax situation. Preparation of your tax return involves summarizing transactions and events that occurred during the prior year. In most situations, treatment is firmly established at the time the transaction occurs. However, negative tax effects can be avoided by proper planning. Please contact us in advance if you have questions about the tax effects of a transaction or event, including the following:

- Pension or IRA distributions.
- Significant change in income or deductions.
- Job change.
- Marriage.
- Attainment of age 59½ or 73.
- Sale or purchase of a business.
- Sale or purchase of a residence or other real estate.
- Retirement.
- Notice from IRS or other revenue department.
- Divorce or separation.
- Self-employment.
- Charitable contributions of property in excess of $5,000.

TAX YEAR 2025

Reverse Mortgages

BALD HILL (FARMINGVILLE, NEW YORK)

ALL COUNTY TX RESOLUTION

INCOME TAXES- TAX RESOLUTION

569 EASTON TPKE

LAKE ARIEL ,PA 18427

PA: Office:570-630-0201 Fax: 570-630-0927

NY: Office:631-924-1400 Fax: 631-775-9506

Email: ACTinfo02@gmail.com

Web Site: allcountytaxresolution.com

Reverse Mortgages

Reverse Mortgages

If you are unwilling or unable to sell your home, and need additional income during retirement, you may benefit from a reverse mortgage. Payments received on a reverse mortgage are not taxable to you.

Tax-free income. A reverse mortgage can be used to generate tax-free income. You can convert the equity built up inside your home into cash without having to sell the home. See *Example #1,* later.

Eliminate mortgage payments. A reverse mortgage can be used to pay off an existing mortgage, thereby reducing expenses. See *Example #2,* later. This may benefit a person who is considering retirement but does not currently have enough money to retire on. See *Example #3,* later.

Home improvements. A reverse mortgage can be used for home improvements and repairs. By making changes to the home, you can continue to live in the home rather than sell and move to a different location. This can be especially important to a person who wishes to keep the home in the family or has an emotional attachment to the home. See *Example #4,* later.

Applicable Tax Law

- Interest on a reverse mortgage is not deductible since it is considered home equity debt and not acquisition debt.
- Payments received from the reverse mortgage are not taxable.
- A reverse mortgage gives a monthly income, lump-sum payout, or a line of credit. No payment is due on the reverse mortgage until the home is sold, the owner dies, or the owner ceases to live in the property for a specified period of time.
- To qualify for a reverse mortgage, a homeowner must:
  – Be 62 years of age or older,
  – Own the property outright or have a small mortgage balance,
  – Occupy the property as his or her principal residence, and
  – Not be delinquent on any federal debt if it is a federally insured reverse mortgage.
- The amount loaned on a reverse mortgage is determined by the age of the youngest borrower, the current interest rate, the lesser of the appraised value or FHA mortgage limit, and the initial mortgage insurance premium.
- The loan is a non-recourse debt. The homeowner retains title to the home.
- To qualify, a property must meet all FHA property standards and flood requirements. The following property types are eligible.
  – Single-family home.
  – Multiple-unit home of 1–4 units with the eligible unit being occupied by the borrower.
  – HUD-approved condominium.
  – Manufactured home that meets FHA requirements.
- The income, lump-sum payout, or line of credit available to the borrower is not taxable to the borrower.
- No repayment of the reverse mortgage is needed as long as the property is the borrower's principal residence and the obligations of the mortgage are met.
- Closing costs may be financed into the mortgage.

Examples

The examples are for illustration purposes only. The actual amount of payment, line of credit, or lump sum depends on the location, appraisal value, age of the borrower and current interest rate. Only a mortgage contract can guarantee a payment, term, or interest rate.

Example #1: Louise, a single taxpayer age 64, owns her home. Her home is worth $175,000 and she owns it outright. Her monthly sources of income include Social Security of $1,250 and a pension of $1,400. She needs $3,000 per month to live on and has no other assets to generate income. Louise takes a reverse mortgage and receives a monthly payment of $505. The annual income from the reverse mortgage of $6,060 is not taxable. In addition, the reverse mortgage payment does not cause any of her Social Security benefits to be taxable.

Example #2: Jack, age 75, and Margaret, age 72, owe $20,000 on their current mortgage. Their home is worth $100,000 and their current payment on their mortgage is $700 per month. Jack and Margaret take out a lump-sum reverse mortgage of $20,000 and use it to pay off the $20,000 mortgage. They no longer have a house payment which frees up $700 per month. The amount used to pay off the original mortgage is not taxable for Jack and Margaret.

Example #3: William, age 65, is looking to retire. He is concerned that he needs to wait seven more years because his mortgage will not be paid off until then. He owes $65,000 on his current mortgage and his monthly payment is $900. His home is worth $225,000. In reviewing his anticipated retirement income and expenses, if he were to retire today, he would have a shortage each month of $400.

William decides to do a reverse mortgage to pay off his $65,000 mortgage. In addition, the reverse mortgage generates a monthly income of $288. Instead of waiting seven years to retire, William has the choice to be able to retire immediately.