

WIEGAND ATTORNEYS & COUNSELORS LAW LIBRARY

Buying a Second Home for Retirement

As retirement approaches, many Americans start to think about their finances and where to invest or move their assets. For some, purchasing a second home is an important part of retirement preparation. With careful planning, this can be a very valuable and significant option.

If you are thinking about buying a second home, the first step is to take inventory of your current and future finances. Be sure to determine the sources of your future income (pensions or government benefits) in order to evaluate how much you can afford. If you are planning on using the second home as a rental during part of the year, don't count on that rental income as part of your income. You never know if you are going to have a period without a renter. After undertaking this assessment, you will have a better sense of what you will be able to afford without stretching yourself too thin.

When actually looking at properties, take into consideration the same factors you would when buying your primary residence such as costs, taxes, and location. Ask yourself whether you want a part-time vacation home or a year-round home that you can eventually move into after you retire. If you are looking for the latter, you will want to ensure that the neighborhoods you are looking at don't shut down during the off-season. The last thing you want is to move into your second home and run out to buy a gallon of milk, only to find out that every store in the area is closed for the season!

Other important considerations when it comes to deciding whether to purchase a second home relate to money and taxes. If the second home is considered a residence by the IRS—meaning you don't rent it out or use it for other business uses—interest on your mortgage is deductible just as it is on your first home. In other words, you can deduct up to \$1 million in interest on both homes (\$1 million total, not \$1 million per home). However, if you rent out your second home, the rules change and vary depending on how long you rent it out. Generally, if you have renters for more than 14 days a year, you will have to report any rental payments as income, but you will also be able to claim any mortgage interest and other costs during the rental time as business expenses. Lastly, depending on local and state laws, you likely can deduct the property taxes on any number of properties you own (regardless of whether you rent them out). Overall, these rules can be very complicated and can change depending simply upon how much time you spend in the

Contact Us

Denver

P: 303.741.6410
F: 303.741.6512

280 E. 20th Ave.
Denver, CO 80205

Breckenridge

P: 970.390.6587
F: 707.922.1047

291 Gold King Way
Breckenridge, CO 80424

Buying a Second Home for Retirement

second home. Therefore, it is probably worth it to talk to an experienced attorney before you take on a rental property in order to ensure that you don't run afoul of local or federal tax authorities.

For retirees, other types of properties may also be worth considering. Options include condominiums of retirement communities, and these also include some significant benefits. Some of these communities offer services that take care of certain household chores such as mowing the lawn, snow removal, and painting. Others provide gyms, pools, and golf courses. And in some retirement communities, there may even be meal service or some form of medical care. If you pursue this option, you will likely purchase the real estate and then pay an additional ongoing fee to the community association for its services. However, it is important to note that with these benefits come some pitfalls. In many communities, there are restrictions on what you can do with the exterior of your home, with your landscaping, on whether you can rent your home, and, in some extremes, on the guests you can have spend the night.

Second homes can create important sources of income and provide flexibility and excitement for your retirement. If you are a retiree, a second home could be used for investment purposes, or it may just be a way for you to live out your dream retirement. Whatever your reason, remember, you are still making a real estate purchase and need to exercise the appropriate level of care.

About Wiegand Attorneys & Counselors

- Business Law
- Tax Law
- Estate Planning
- Probate and Trust
- Financial Planning
- Elder Money Management
- Income Tax for Businesses and Individuals

A Trusted Denver Law Firm, Focused On Longterm Prosperity and Security

Since 1977, we have specialized in providing counsel to clients in these arenas. Thanks to our background in management and added Tax Law expertise, clients benefit from real-world insight that most career attorneys can't offer. From Business Planning to Probate Law and Estate Planning, we're better equipped to look at issues from your perspective.



Your Law is prepared by the ABA Division for Public Education. Articles in Your Law do not necessarily represent the official policies of the American Bar Association or of the participating firms, and the information contained in the newsletter should not be acted on without professional advice. Your Law articles focus on broadly applicable legal principles. Contact your lawyer for the specific law in your state. Copyright © 2003, American Bar Association, 541 North Fairbanks Court, Chicago, IL, 60611-3314.