

BUY-VERSUS-RENT AFTER-TAX ANALYSIS

NOTE: This form is used by a buyer's agent when counseling a potential homebuyer who currently rents their residence, to present an estimate of the income tax reduction and equity buildup likely to be experienced from homeownership.

DATE: _____, 20_____, at _____, California.

PREPARED FOR: _____

PREPARED BY: _____ CalBRE #: _____

Broker's name: _____ CalBRE #: _____

Phone: _____ Cell: _____ Email: _____

This cost comparison involves the ownership costs of property known as _____ and

the rental costs for the same property, or property now rented by the homebuyer known as _____.

Source of the information used in this analysis: _____

Note: Homeowners need to itemize their personal deductions and list their deductible ownership expenses to experience a reduction in their income tax liability.

1. The costs of renting:

- 1.1 Monthly rent payment \$ _____
- 1.2 Utilities paid monthly (gas, electricity, water, trash, etc.) \$ _____
- 1.3 Tenant insurance premium..... Annual \$ _____ Monthly \$ _____
- 1.4 Monthly parking/storage charge \$ _____
- 1.5 Recreation or fitness facility monthly cost \$ _____
- 1.6 Other monthly occupancy and tenant expenses \$ _____
- 1.7 **TOTAL BEFORE-TAX** expenditures for renting – monthly..... \$ _____
- 1.8 Tax savings: California Renter Tax Credit:..... Annual (-)\$ _____ Monthly (-)\$ _____
- 1.9 **TOTAL AFTER-TAX** expenditures for renting – monthly..... \$ _____

2. The costs of homeownership (exclusive of acquisition and transactional costs):

- 2.1 Price of the property \$ _____
 - a. Property tax rate: 1%, 1.1%, 1.2%.
 - b. Property taxes..... Annual \$ _____ Monthly \$ _____
- 2.2 Mortgage principal amount (include upfront MIP if FHA)..... \$ _____
 - a. Interest rate: _____%.
 - b. Mortgage payment (principal and interest) – monthly..... (Online amortization calculator) \$ _____
 - c. Mortgage default insurance monthly premium: PMI, MIP..... \$ _____
- 2.3 Assessment bond principal amount (streets/solar)..... \$ _____
 - a. Interest rate: _____%.
 - b. Bond payment..... Annual \$ _____ Monthly \$ _____
- 2.4 Nondeductible carrying costs of ownership [See **ft** Form 306]:
 - a. Homeowner insurance premium..... Annual \$ _____ Monthly \$ _____
 - b. Gas and electricity – monthly..... \$ _____
 - c. Water, etc. – monthly..... \$ _____
 - d. Trash and sewage – monthly..... \$ _____
 - e. Repair and replacement maintenance monthly..... \$ _____
 - f. Homeowners' association (HOA) monthly payment..... \$ _____
 - g. Solar panels lease payment monthly..... \$ _____
 - h. Pool/Spa maintenance monthly..... \$ _____
 - i. Yard/lawn care monthly..... \$ _____
 - j. Maid/Housekeeping..... \$ _____

- k. Other monthly home expenses \$ _____
- l. Total monthly nondeductible carrying costs \$ _____
- 2.5 **TOTAL BEFORE-TAX** ownership expenditures \$ _____
- 3. **BEFORE-TAX DIFFERENCE** in monthly expenditures of owning versus renting (+)(-) \$ _____
- 4. **MONTHLY TAX SAVINGS** analysis:

 - 4.1 Deductible ownership expenses – monthly:

 - a. Mortgage interest \$ _____
 - b. Streets/solar assessment bond interest \$ _____
 - c. PMI/MIP \$ _____
 - d. Property taxes \$ _____
 - e. Total monthly deductible ownership expenditures \$ _____
 - f. Household’s tax rate : 10%, 15%, 25%, 28%, 33%, 35%, 39.6%.

- 4.2 Savings from reduced income taxes – monthly: (-) \$ _____
- 4.3 **TOTAL AFTER-TAX** expenditures for ownership – monthly \$ _____
- 5. **AFTER-TAX DIFFERENCE** in monthly expenditures of owning versus renting (+)(-) \$ _____
- 6. **ADDITIONAL YEAR-OF-PURCHASE TAX SAVINGS** for mortgage origination:

 - 6.1 Mortgage origination fees \$ _____
 - 6.2 Prepaid interest for month of closing \$ _____
 - 6.3 Total year-of-purchase mortgage origination deductions \$ _____
 - 6.4 Household’s tax-bracket rate _____
 - 6.5 Additional one-time tax savings for year of purchase \$ _____

BUY-VERSUS-RENT ANNUAL SUMMARY

- 1. **BEFORE-TAX:**

 - 1.1 **TOTAL** annual out-of-pocket difference – ownership versus renting (+)(-) \$ _____

- 2. **AFTER-TAX:**

 - 2.1 **TOTAL** annual out-of-pocket difference – ownership versus renting (+)(-) \$ _____
 - 2.2 Additional one-time tax savings for the year-of-purchase \$ _____
 - 2.3 **TOTAL** out-of-pocket difference during first 12 months (+)(-) \$ _____

- 3. **WEALTH FACTOR OF HOME EQUITY BUILDUP:**

 - 3.1 Amortized principal reduction at 10 years [\(Online amortization calculator\)](#) \$ _____
 - 3.2 Mortgage principal reduction as savings (10-year annual average) \$ _____
 - 3.3 Home value increase (3.5% annual growth) \$ _____
 - 3.4 **TOTAL** annual home equity buildup (10-year annual average) (+) \$ _____

- 4. **ANNUAL NET FINANCIAL BENEFIT** of homeownership versus renting \$ _____



WHY RENT WHEN YOU CAN BUY?

Determining the financial benefits of homeownership

Renters become homeowners for many reasons. However, deciding whether they are better off financially by renting or buying a single family residence (SFR) is far more involved than just comparing their monthly rent payment against their proposed mortgage payment.

For real estate agents, one convincing tool readily available for use in a discussion with prospective homebuyers is preparing and reviewing **visual evidence** of the financial benefits generated by homeownership.

The **Buy-Versus-Rent After-Tax Analysis – Form 320-4** — published by **RPI (Realty Publications, Inc.)** — is used by a buyer's agent when counseling a potential homebuyer who currently rents their residence. It presents an estimate of the income tax reduction and equity buildup they are likely to experience from homeownership. [See **RPI Form 320-4**]

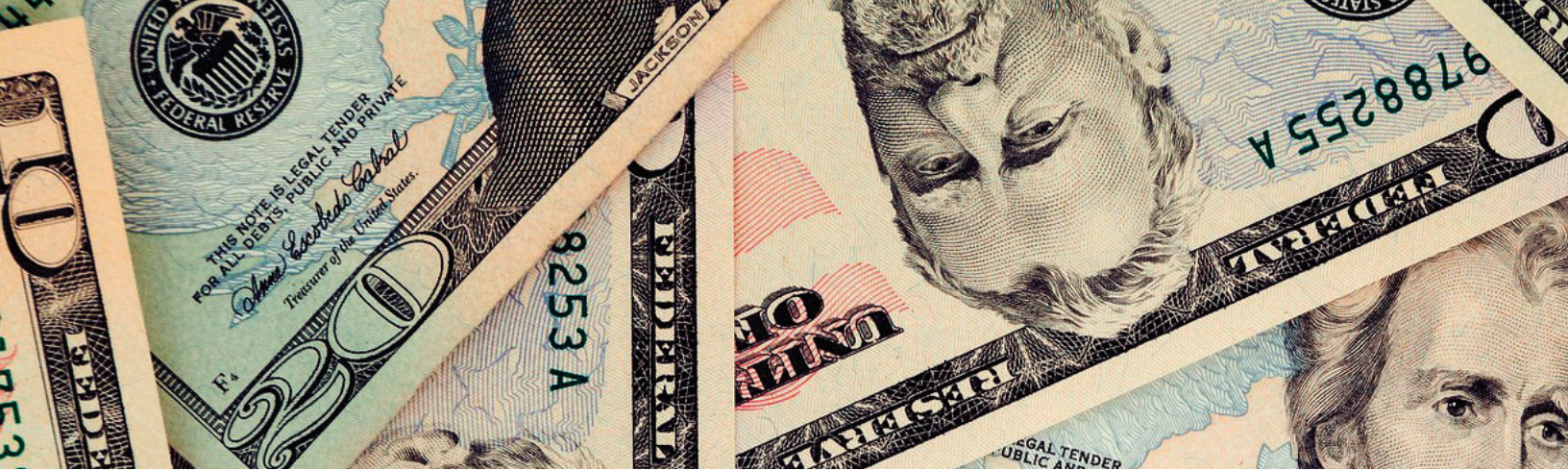
The *Buy-Versus-Rent After-Tax Analysis* form succinctly outlines how to efficiently compare monthly costs of renting versus owning for your buyer. The presentation includes *mortgage interest deductions, tax savings and equity growth* achieved based on your buyer's home

price, down payment and tax bracket. All comparative data are presented in the form as monthly and annual figures that buyers will quickly comprehend. Further, the form performs all the critical calculations for you.

The Buy-Versus-Rent After-Tax Analysis compares the future homebuyer's current costs of renting against likely homeownership costs (and savings) and presents them in before-tax cash expenditures and after-tax results. [See **RPI Form 320-4**]

Related article:

[Talk subsidized homeownership openly – hard numbers convert tenants to buyers](#)



Preparing the Buy-Versus-Rent After-Tax Analysis

The following instructions are for the use of the Buy-Versus-Rent After-Tax Analysis. Each section of Form 320-4 has a separate analysis which is used to determine the final results.

Each instruction corresponds to the provision in the form bearing the same number.

1. *The costs of renting:* This section illustrates the total monthly cash outlay currently experienced renting shelter.
 - 1.1 **Enter** the monthly rent payments.
 - 1.2 **Enter** the month utility expenses, including gas, electricity, water and trash.
 - 1.3 **Enter** the tenant's renter's insurance premium (calculated on a monthly basis).
 - 1.4 **Enter** any monthly parking or storage charge.
 - 1.5 **Enter** any monthly recreation or fitness facility charges.
 - 1.6 **Enter** any other monthly occupancy and tenant expenses incurred.
 - 1.7 The total monthly **before-tax** expenditures experienced by your buyer is automatically calculated.
 - 1.8 The California Renter Tax Credit (defaulted to \$120 per year or \$10 per month) is automatically deducted from the total monthly before-tax expenditures to obtain the monthly total **after-tax** expenditures for renting displayed in provision 1.9. [See **RPI** Form 320-4 §1]
2. *The costs of homeownership:* This section illustrates the total monthly costs of homeownership the buyer of a property will likely experience (exclusive of the transactional costs of acquisition).
 - 2.1 **Enter** the price of the property to be purchased and **check** the box to indicate the *property tax rate* (the annual property tax will automatically fill based on the price and rate).
 - 2.2 **Enter** the mortgage principal amount and the upfront mortgage insurance premium (MIP) paid when the mortgage is insured by the Federal Housing Administration (FHA) (a link to an online amortization is provided), interest rate, mortgage payment, and **check** private mortgage insurance (PMI) or MIP if applicable;
 - 2.3 **Enter** any *assessment bond* principal amount (e.g., street or solar), its interest rate and annual payment (the monthly payment will be automatically calculated).

2.4 (a – l) **Enter** monthly non-deductible carrying costs of ownership, itemized as homeowners insurance, utilities, repairs and maintenance, homeowners' association (HOA) payment, solar panel lease payment and any other monthly home expenses. The total monthly nondeductible carrying cost of homeownership is automatically calculated.

2.5 Here, the total before-tax ownership expenditures (§2.1-2.4) is automatically calculated. [See **RPI Form 320-4 §2**]

3. Here, the *before-tax difference* in monthly expenditures of owning versus renting is automatically calculated. [See **RPI Form 320-4 §3**]

4. The *monthly tax savings analysis*: This section illustrates the total monthly after-tax expenditures for ownership.

4.1 (a – e) Here, the total monthly deductible ownership expenditures for mortgage interest, street/solar assessment bonds, PMI/MIP and property taxes is automatically calculated.

(f) **Check** the appropriate tax rate of the household.

4.2 Here, the monthly savings from reduced income taxes is automatically calculated.

4.3 Here, the total monthly after-tax expenditures of owning versus renting is automatically calculated. [See **RPI Form 320-4 §4**]

5. Here, the *after-tax difference in monthly expenditures of owning versus renting* is automatically displayed. [See **RPI Form 320-4 §5**]

6. *Additional year-of-purchase tax savings for mortgage origination*: This section illustrates the total deductible year-of-purchase tax savings for mortgage origination costs.

6.1 **Enter** the mortgage origination fees.

6.2 Enter the prepaid interest for month of closing.

6.3 Here, the total year-of-purchase mortgage origination deduction is automatically calculated.

6.4 Here, the household's tax rate is automatically displayed.

6.5 Here, the additional one-time tax savings for year of purchase is automatically calculated. [See **RPI Form 320-4 §6**]

The second part of Form 320-4 presents the **Buy-Versus-Rent Annual Summary** based on the figures provided in the prior sections:

1. Before-tax:

1.1 Here, the *total before-tax annual out-of-pocket difference* between owning and renting is automatically displayed. [See **RPI Form 320-4 Summary § 1**];

2. After-tax:

2.1 Here, the total *after-tax out-of-pocket difference* during first 12 months of ownership is automatically displayed.

2.2 The additional *one-time tax savings for the year-of-purchase* is automatically displayed.





2.3 Here, the total *out-of-pocket difference during first 12 months of ownership* is automatically displayed. [See **RPI** Form 320-4 Summary §2]

3. The *wealth factor of home equity buildup*:

3.1 Enter the mortgage principal reduction from amortization at 10 years. (Using the amortization schedule of a mortgage calculator, determine the principal balance remaining after 10 years. Then, subtract that figure from the original mortgage amount to determine the principal reduction.)

3.2 Here, the *mortgage principal reduction as savings (10-year annual average)* is automatically calculated.

3.3 Here, the *home value increase (3.5% annual growth)* is automatically calculated

3.4 Here, the *total annual home equity buildup (10-year annual average)* is automatically calculated. [See **RPI** Form 320-4 Summary §3]

4. Finally, the *annual net financial benefit of homeownership versus renting* is automatically calculated. [See **RPI** Form 320-4 Summary §4]