News Release

Media Contact only:

Nancy Kohler
Lande Communications
Phone: 800-993-7600, ext. 3#
Email: nkohler@landepr.com

Melissa Lande
Lande Communications
Phone: 800-993-7600, ext. 1#
Email: mlande@landepr.com

For Immediate Release

MAKE YOUR VACATION HOME INTO A TAX SHELTER

RIA Senior Tax Analyst Explains Tax Savings Available from a Second Home

NEW YORK, June 7, 2007 – Like many individuals, you may have purchased your vacation home for a family getaway. Yet, with energy costs and adjustable rate mortgage payments on the rise, you may be facing the option of renting out your vacation home this summer. "Depending on your situation, the rental income you receive may itself be tax free," advises Bob D. Scharin, RIA Senior Tax Analyst from Thomson Tax & Accounting, a part of The Thomson Corporation (NYSE:TOC,TSC:TOC).

Tax-free income. "If you rent your vacation home for no more than 14 days during the year, the tax law has a rule that sounds too good to be true—but it is," Scharin explains. "The rent you receive in this situation is tax-free, and you are not even required to report it on your tax return." Furthermore, you still can deduct your mortgage interest and real estate taxes in the same manner as if you have not put the home to vacation use. No other rental expenses are deductible.

"This same tax-free income rule applies if you rent your principal residence for up to 14 days—for instance, when you go on vacation," Scharin notes.

Landlord-type deductions. If your rental use exceeds 14 days, the tax rules become more complex, but tax savings are still available. First, you need to report the income on Schedule E. You also prorate your related expenses between the rental and personal use of the home and deduct the rental expenses on that schedule. The precise tax treatment depends on your rental and personal use pattern.

- If your vacation home is rented for more than 14 days and your personal use exceeds the greater of 14 days or 10% of the rental days, your deductions are limited to your gross rental income, but any excess can be carried over to a subsequent year (subject to the gross rental income deduction limitation). In addition, you can deduct, on Schedule A, the personal-use portion of the mortgage interest and real estate taxes the same as if you had not rented out your vacation home.

- If you used your vacation home for personal purposes for fewer than the greater of 15 days or 10% of the days it was rented out, it is not considered a residence. That means your deductions, which are reported on Schedule E, are not necessarily limited to the gross rental income from the property (although some other complex rules may end up having the effect of doing so). Deductions must still be allocated between personal and rental use, and the mortgage interest allocable to your personal use of the home is not deductible.

What are other "landlord-type deductions"? This category includes, among other things, mortgage interest, real estate taxes, rental agent fees, cleaning and maintenance costs, insurance premiums, utilities, and depreciation.

Word to the wise. "When you put your vacation home to rental use for more than 14 days during the year, be sure to keep good records of both your rental and personal-use pattern, and the expenses you incur," Scharin advises. "That way, you substantiate all the deductions to which you are entitled and make the home a tax shelter as well as a vacation retreat."

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