<u>Deducting Home Mortgage Interest</u>

With all of the talk and activity surrounding the subject of home mortgage refinancing, now is as good a time as any to review the rules of the game. Please contact my office if I can assist you in answering any questions that you have regarding this subject or any other tax topic.

Home mortgage interest is normally deductible, but there are some limits. Under current law, you can deduct the interest on a loan of up to $1 million to buy, build or improve a home. In addition, you can deduct the interest on a loan of up to $100,000 that is secured against your home but used for other purposes.

As a practical matter, this means that in refinancing a mortgage, you can typically borrow an amount equal to the remaining balance on your original loan plus $100,000 and deduct ALL of the interest. If you use some of the proceeds to improve your house, that amount is counted against the $1 million limit rather that the $100,000 limits. That would mean that your deductible limit would be the sum of the balance on the original loan plus the amount that went into the remodeling plus $100,000.

<u>What About the Points</u>

Generally, points are deductible in the year you pay them when you're taking a loan to buy or build a house. But, in refinancing a home mortgage, the points are supposed to be deducted over the life of the loan.

There is one very important exception here. The tax laws allow borrowers to immediately deduct the portion of the points related to a <u>home improvement</u> that's funded by the refinanced mortgage. Let's say you refinanced your existing home mortgage and had to pay 2 points out of your pocket to secure a lower interest rate. Let's also assume that you used 25% of the new loan proceeds to build an addition onto the house. Since you used ¼ of the loan proceeds to improve the home, you can immediately deduct as interest ¼ of the 2 points that you paid. So,

you get an immediate deduction of half a point and the remaining 1 ½ points are taken as a deduction over the life of the loan.

What If You Previously Refinanced

There is nothing in the tax laws that prevent you from refinancing over and over again. Each taxpayer must decide for themselves whether that makes sense for them, taking into account the expenses/fees that must be paid in connection with refinancing a mortgage.

Individuals who have previously refinanced should keep in mind that if they refinance again, any points that are left over from the first loan can be written off in the tax year in which the new refinancing takes place.

Thank you for the opportunity to review this important topic with you and as always for your continuing support. Please feel free to contact my office is you have any questions concerning this or any other tax issue.