What Is Tax Deductible In The Loan Process?

The tax benefits can be one of the biggest perks of owning a home. The deductions you can take can save you a bunch of money, read on below to find out what is tax deductible in the loan process.

Home Acquisition Mortgage Loan Fees

When you bought your primary or secondary home, you obtained a mortgage to finance the purchase. That mortgage is called an "acquisition mortgage" because it enabled the purchase of the residence. If you paid a loan fee to obtain that acquisition mortgage, usually called "points" or "origination", those loan fees qualify as an itemized interest deduction. These costs are typically found on your HUD-1 (Settlement Statement) on lines 801 and 802, however, they can also be anywhere on the HUD-1, especially if you did a 2/1 Buy Down or a TxVLB loan.

Home Improvement Loan Fees

Similar to above, if you paid a loan fee to obtain a home improvement loan, that loan fee is fully deductible in the tax year it was paid.

Refinance Loan Fees

Loan fees paid to refinance a home loan (or borrow against other real estate)can be deducted. Note that the tax rules on this deduction changed in 2007, so it is important to discuss this with your CPA or tax professional.

Prorated Real Estate Taxes

A major tax deduction many real estate buyers and sellers overlook is the prorated property tax they paid at the closing. Even if the other party remitted the payment to the tax collector, but you were charged a prorated portion of the tax bill, be sure to deduct your share on your return.

Prorated Mortgage Interest

Similarly, if you bought a residence and took over an existing mortgage, don't forget to deduct your prorated interest share for the month of the sale. Your Final Closing/Settlement Statement (also called a HUD-1) shows your prorated share of the mortgage interest.

Mortgage Prepayment Penalty

If you paid off an existing mortgage early and were charged a prepayment penalty by the lender, that prepayment penalty qualifies as an itemized deduction.

Land Rent

Millions of homes are located on leased land, although there are not many in our area. Internal Revenue Code 163 allows land rent to be deducted like interest when the lease; (a) is for at least 15 years, including renewal periods; (b) is freely assignable; (c) contains a present or future option to buy the land; and (d) is like a security interest, such as a mortgage. Payments to buy the land are not deductible, nor are ground rent payments deductible if you do not have the option to buy the land, such as in a mobile home park.

Home Construction Loan Interest

If you built a new home last year, or are building one now, don't forget to deduct the construction loan interest paid. It's deductible if the construction period does not exceed 24 months before occupancy of your principal residence. Note that this only applies if you paid the construction loan interest, not the builder.

Prepaid Property Taxes & Mortgage Interest.

If you prepaid this year's real estate taxes last year, as some homeowners do to increase their tax deductions, or if you paid your January mortgage payment in December of last year, don't forget to deduct these extra mortgage interest and property tax payments on your income tax returns.

Private Mortgage Insurance (PMI/MIP)

With households that have income less than $100,000 this cost should be tax deductible. This includes Upfront FHA MIP, VA Funding Fee or USDA Guarantee Fees, as well.

***The Doug Haldeman Show, The Doug Haldeman Team, & Cornerstone Mortgage are not tax consultants, advisers, or CPAs. The information contained here should only be used as a guide. Speak with a certified tax professional regarding tax issues and questions.*