

IRS TAX TIP 2004-57

REFINANCING YOUR HOME

Taxpayers who refinanced their homes may be eligible to deduct some costs associated with their loans, according to the IRS.

Generally, for taxpayers who itemize, the “points” paid to obtain a home mortgage may be deductible as mortgage interest. Points paid to obtain an original home mortgage can be, depending on circumstances, fully deductible in the year paid. However, points paid solely to refinance a home mortgage usually must be deducted over the life of the loan.

For a refinanced mortgage, the interest deduction for points is determined by dividing the points paid by the number of payments to be made over the life of the loan. This information is usually available from lenders. Taxpayers may deduct points only for those payments made in the tax year. For example, a homeowner who paid \$2,000 in points and who would make 360 payments on a 30-year mortgage could deduct \$5.56 per monthly payment, or a total of \$66.72 if he or she made 12 payments in one year.

However, if part of the refinanced mortgage money was used to finance improvements to the home and if the taxpayer meets certain other requirements, the points associated with the home improvements may be fully deductible in the year the points were paid. Also, if a homeowner is refinancing a mortgage for a second time, the balance of points paid for the first refinanced mortgage may be fully deductible at pay off.

Other closing costs – such as appraisal fees and other non-interest fees – generally are not deductible. Additionally, the amount of Adjusted Gross Income can affect the amount of deductions that can be taken.

For more information on deductions related to refinancing, visit the IRS Web site at www.irs.gov and look up “Frequently Asked Questions” (keyword: refinancing fees) or Tax Topics 504, “Home Mortgage Points,” and 505, “Interest Expenses.”

Other tax information on residential real estate can be found in IRS Publications 936, “Home Mortgage Interest Deduction,” 523, “Selling Your Home,” 527, “Residential Rental Property,” and 530, “Tax Information for First-Time Homeowners.” All publications are available on the IRS Web site or by calling 1-800-TAX FORM (1-800-829-3676).

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