

Locking in Deductions for Mortgage Interest

Overview of key tax rules for homeowners

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Did you pay mortgage interest in 2011? Although the tax law is generally favorable to taxpayers in this area, do not assume that all the interest is deductible on your 2011 return.

How much mortgage interest can you deduct? It depends. Here's a recap of the main rules.

Acquisition debts: You may fully deduct the mortgage interest paid on loan proceeds used to buy, build or substantially renovate a home if the loans are secured by either your principal residence or one other home (e.g., a vacation home). The total principal amount of the acquisition debts cannot exceed \$1 million.

Home equity debts: If it is permitted by state law, you also may fully deduct the interest on home equity loans secured by a qualified residence. But the total amount of such loans is limited to \$100,000. Also, these amounts cannot exceed your equity in the residence (the home's value less other loans). With a home equity loan, you can use the loan proceeds any way that you see fit.

Any mortgage debt existing prior to October 14, 1987, known as "grandfathered debt," is treated as acquisition debt, regardless of the amount. The mortgage interest on post-October 13, 1987, acquisition debt is deductible on debts up to \$1 million; the interest on home equity debt is deductible on debts up to \$100,000.

Note that the special rules apply to "points" paid to obtain a mortgage. The points may be currently deductible as mortgage interest if they were paid to purchase, build or improve a home, but points on a refinancing must be deducted over the life of the loan.

Advisory: Mortgage lenders are required to report the mortgage interest you pay each year. But they can make mistakes. Check to make sure that all the qualified mortgage interest you paid in 2011 is properly reflected on the forms you have received.

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