

deduct two points (\$2,000) ratably over the life of the loan. He deducts \$67 $[(\$2,000 \div 180 \text{ months}) \times 6 \text{ payments}]$ of the points in 2008. The other point (\$1,000) was a fee for services and is not deductible.

Example 2. The facts are the same as in *Example 1*, except that Bill used \$25,000 of the loan proceeds to improve his home and \$75,000 to repay his existing mortgage. Bill deducts 25% ($\$25,000 \div \$100,000$) of the points (\$2,000) in 2008. His deduction is \$500 ($\$2,000 \times 25\%$).

Bill also deducts the ratable part of the remaining \$1,500 ($\$2,000 - \500) that must be spread over the life of the loan. This is \$50 $[(\$1,500 \div 180 \text{ months}) \times 6 \text{ payments}]$ in 2008. The total amount Bill deducts in 2008 is \$550 ($\$500 + \50).

Special Situations

This section describes certain special situations that may affect your deduction of points.

Original issue discount. If you do not qualify to either deduct the points in the year paid or deduct them ratably over the life of the loan, or if you choose not to use either of these methods, the points reduce the issue price of the loan. This reduction results in original issue discount, which is discussed in chapter 4 of Publication 535.

Amounts charged for services. Amounts charged by the lender for specific services connected to the loan are not interest. Examples of these charges are:

- Appraisal fees,
- Notary fees, and
- Preparation costs for the mortgage note or deed of trust.

You cannot deduct these amounts as points either in the year paid or over the life of the mortgage.

Points paid by the seller. The term “points” includes loan placement fees that the seller pays to the lender to arrange financing for the buyer.

Treatment by seller. The seller cannot deduct these fees as interest. But they are a selling expense that reduces the amount realized by the seller. See [chapter 15](#) for information on selling your home.

Treatment by buyer. The buyer reduces the basis of the home by the amount of the seller-paid points and treats the points as if he or she had paid them. If all the tests under [Deduction Allowed in Year Paid](#), earlier, are met, the buyer can deduct the points in the year paid. If any of those tests are not met, the buyer deducts the points over the life of the loan.

For information about basis, see [chapter 13](#).

Funds provided are less than points. If you meet all the tests in [Deduction Allowed in Year Paid](#), earlier, except that the funds you provided were less than the points charged to you (test (6)), you can deduct the points in the year paid, up to the amount of funds you provided. In addition, you can deduct any points paid by the seller.

Example 1. When you took out a \$100,000 mortgage loan to buy your home in December, you were charged one point (\$1,000). You meet all the tests for deducting points in the year paid, except the only funds you provided were a \$750 down payment. Of the \$1,000 charged for points, you can deduct \$750 in the year paid. You spread the remaining \$250 over the life of the mortgage.

Example 2. The facts are the same as in *Example 1*, except that the person who sold you your home also paid one point (\$1,000) to help you get your mortgage. In the year paid, you can deduct \$1,750 (\$750 of the amount you were charged plus the \$1,000 paid by the seller). You spread the remaining \$250 over the life of the mortgage. You must reduce the basis of your home by the \$1,000 paid by the seller.

Excess points. If you meet all the tests in [Deduction Allowed in Year Paid](#), earlier, except that the points paid were more than generally paid in your area (test (3)), you deduct in the year paid only the points that are generally charged. You must spread any additional points over the life of the mortgage.

Mortgage ending early. If you spread your deduction for points over the life of the mortgage, you can deduct any remaining balance in the year the mortgage ends. However, if you refinance the mortgage with the same lender, you cannot deduct any remaining balance of spread points. Instead, deduct the remaining balance over the term of the new loan.

A mortgage may end early due to a prepayment, refinancing, foreclosure, or similar event.

Example. Dan paid \$3,000 in points in 1997 that he had to spread out over the 15-year life of the mortgage. He deducts \$200 points per year. Through 2007, Dan has deducted \$2,200 of the points.

Dan prepaid his mortgage in full in 2008. He can deduct the remaining \$800 of points in 2008.

Limits on deduction. You cannot fully deduct points paid on a mortgage unless the mortgage fits into one of the categories listed earlier under [Fully deductible interest](#). See Publication 936 for details.

Mortgage Insurance Premiums

You can treat amounts you paid during 2008 for qualified mortgage insurance as home mortgage interest. The insurance must be in connection with home acquisition debt and the insurance contract must have been issued after 2006.

Qualified mortgage insurance. Qualified mortgage insurance is mortgage insurance provided by the Department of Veterans Affairs, the Federal Housing Administration, or the Rural Housing Service, and private mortgage insurance (as defined in section 2 of the Homeowners Protection Act of 1998 as in effect on December 20, 2006).

Mortgage insurance provided by the Department of Veterans Affairs is commonly known as a funding fee. If provided by the Rural Housing Service, it is commonly known as a guarantee fee. These fees can be deducted fully in 2008 if

the mortgage insurance contract was issued in 2008. Contact the mortgage insurance issuer to determine the deductible amount if it is not reported in box 4 of Form 1098.

Special rules for prepaid mortgage insurance. If you paid premiums for qualified mortgage insurance that are allocable to periods after the close of the tax year, such premiums are treated as paid in the period to which they are allocated. No deduction is allowed for the unamortized balance if the mortgage is satisfied before its term (except in the case of qualified mortgage insurance provided by the Department of Veterans Affairs or Rural Housing Service).

At the time this publication went to print, regulations were being considered that would allow you to allocate qualified mortgage insurance premiums paid in connection with a mortgage obtained after 2006 over the shorter of the stated term of the mortgage or 84 months, beginning with the month the insurance was obtained.

More information can be found in Publication 553, Highlights of 2008 Tax Changes which is available at www.irs.gov/formspubs. Information on this and other changes affecting individual taxpayers can also be found at www.irs.gov/formspubs. Click on *Highlights of Recent Tax Changes* and then on *Individuals*.

Limit on deduction. If your adjusted gross income on Form 1040, line 38, is more than \$100,000 (\$50,000 if your filing status is married filing separately), the amount of your mortgage insurance premiums that are otherwise deductible is reduced and may be eliminated. See *Line 13* in the instructions for Schedule A (Form 1040) and complete the *Qualified Mortgage Insurance Premiums Deduction Worksheet* to figure the amount you can deduct. If your adjusted gross income is more than \$109,000 (\$54,500 if married filing separately), you cannot deduct your mortgage insurance premiums.

Form 1098, Mortgage Interest Statement

If you paid \$600 or more of mortgage interest (including certain points and mortgage insurance premiums) during the year on any one mortgage, you generally will receive a Form 1098 or a similar statement from the mortgage holder. You will receive the statement if you pay interest to a person (including a financial institution or a cooperative housing corporation) in the course of that person's trade or business. A governmental unit is a person for purposes of furnishing the statement.

The statement for each year should be sent to you by January 31 of the following year. A copy of this form will also be sent to the IRS.

The statement will show the total interest you paid during the year, any mortgage insurance premiums you paid, and if you purchased a main home during the year, it also will show the deductible points paid during the year, including seller-paid points. However, it should not show any interest that was paid for you by a government agency.

As a general rule, Form 1098 will include only points that you can fully deduct in the year paid. However, certain points not included on Form 1098 also may be deductible, either in the