

Rules for mortgage deductions change for 2007 tax year

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By Christina Klein

Most people know that there are tax advantages to owning your own home instead of renting. There are some changes that are new for the 2007 tax year, as well as important guidelines to know in deducting these expenses to ensure you get as much of the deductions as possible.

The interest that you pay on your mortgage is deductible as an itemized deduction on your personal income tax return, as well as the real estate taxes and interest you pay on a home equity loan.

The IRS has implemented computerized matching of mortgage interest reported by financial institutions on form 1098 to the deduction taken by the taxpayer on form 1040 Schedule A. You should have received Form 1098 in the mail by Jan. 31 showing the amount of mortgage interest you paid. You will want to verify that the amount you take as a deduction on your 1040 matches the total on all the 1098 forms you received. If the amounts do not match, you are likely to get a notice from the IRS.



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New for 2007 income tax filers, there is a deduction allowed for mortgage insurance premiums paid, otherwise known as PMI. Homeowners who cannot put at least 20 percent down on the purchase of a home usually pay this PMI as an addition to their monthly mortgage payment. Prior to 2007, the amount paid for PMI was not deductible. Now taxpayers can deduct the cost of PMI on their 1040 along with other mortgage interest paid, but with a few restrictions. Only insurance originally obtained in 2007 can be deducted. The amount of PMI paid is reported on Form 1098. There is a phase out of this deduction starting at \$100,000 of AGI for married couples.

There is a limit on how much mortgage interest can be deducted each year. Interest on acquisition debt is deductible on up to \$1 million in debt. This includes all mortgages combined. For example, if you had a \$600,000 mortgage on your primary home and a \$550,000 mortgage on a vacation home this would total \$1,150,000 of debt. You would be limited to deducting only the interest on \$1 million of that debt and would not be able to deduct the interest on the additional \$150,000.

Interest paid on a Home Equity Line of Credit is deductible on loans up to \$100,000, regardless of what the money is used for. Any interest paid on the portion of the loan more than \$100,000 is nondeductible. This would be an instance where some tax planning would pay off. Maximizing your acquisition debt on the purchase of a home (rather than later borrowing on a line of credit) may allow more interest to be fully deductible, and the original acquisition debt can always be paid down if desired.

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