

REAL ESTATE 10 Often Overlooked... DEDUCTIONS

- 1 Home acquisition mortgage loan fees:** If you bought your primary or secondary home in 2005, you probably obtained a mortgage to finance the purchase. That mortgage is called an "acquisition mortgage" because it enabled a purchase of the residence. If you paid a loan fee to obtain that acquisition mortgage, usually called "points," that loan fee qualifies as an itemized interest deduction. Each point paid equals 1 percent of the amount borrowed.
- 2 Home improvement loan fees:** 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.
- 3 Loan fees paid to refinance a home loan or borrow against other real estate:** If you refinanced your existing home loan in 2005, or borrowed against other real estate, such as an apartment building, any loan fee you paid must be deducted over the life of the mortgage; i.e., if you paid a \$1,000 loan fee to refinance with a new 33-year home mortgage, you can deduct \$33.33 for each of the next 30 years.
- 4 When refinancing, deduct any undeducted loan fees:** Thanks to low mortgage interest rates, many home owners refinanced again in 2005 after previously refinancing a year or two earlier. These home owners should remember to deduct on the 2005 income tax returns any undeducted loan fees from a prior mortgage refinance.
- 5 If you bought or sold property in 2005, remember to deduct prorated real estate taxes:** A major tax deduction many real estate buyers and sellers overlook is the prorated property tax they paid at the close of escrow. 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 2005 return.
- 6 Deduct prorated mortgage interest in the year of property purchase or sale:** Similarly, if you bought a residence (or other real estate) and took over an existing mortgage, do not forget to deduct your prorated interest share for the month of the sale (even if the seller made the payment to the lender). Your closing settlement statement shows your prorated share of mortgage interest.
- 7 Mortgage prepayment penalty:** If you paid off an existing mortgage early and were charged a prepayment penalty by the lender, that prepayment penalty qualified as an itemized deduction.
- 8 When land rent payments qualify as interest deductions:** Millions of homes are located on leased land and Internal Revenue Code 163(c) 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. Of course, 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.
- 9 Home construction loan interest:** If you built a new home in 2005 or are building one now, do not forget to deduct the construction loan interest paid. It is deductible if the construction period does not exceed 24 months before occupancy of your principal residence.
- 10 Deduct prepaid property taxes and mortgage interest.** If you prepaid your 2006 real estate taxes in 2005, as home owners do to increase their tax deductions, or if you paid your January 2006 mortgage payment in December 2005, do not forget to deduct these extra mortgage interest and property tax payment on your 2005 income tax returns.



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