

CORREIA FINANCIAL SERVICES

844 Union Ave. Ste. C

Fairfield, Ca. 94533

Phone 707-426-0920 Fax 707-434-8709

DEDUCTION OF HOME MORTGAGE INTEREST

This deduction is allowed for interest paid on loans secured by the taxpayers primary residence and /or second home. This deduction has two categories, acquisition debt and home equity debt and each has a maximum limit as well as other conditions.

Acquisition debt is: (1) incurred to purchase, construct or substantially improve the taxpayers principal residence or second home. (2) secured by the home/homes. (3) This can not exceed \$ 1,000,000.00 for the two homes. (if MFS the limit is \$500,000) (4)Refinanced debt can also qualify, but only to the amount of current acquisition debt that exists just before the refinance. Please be aware that acquisition debt does decline over time as you pay off the mortgage and if you paid cash for a home or there is no current mortgage against your home the acquisition debt amount is zero. This debt is deductible against both regular taxes and AMT.

Home equity debt is: (1) not acquisition debt, (2) is secured by the either principal residence or second home and (3) the maximum amount is \$ 100,000.00 (one hundred thousand dollars) (MFS limit is 50,000) This debt is not deductible against AMT (Alternative Minimum Tax)

There are a number of special conditions, spousal buyout, pre 1987 debt, mixed use debt, etc. that must be considered to determine the total amount of deductible interest. The steps below only begin the process.

WORKSHEET:

Original cost of home (including closing costs) \$ _____

Minus Down payment \$ _____

Equals Original Acquisition Debt \$ _____

NEW REFINANCED LOAN (Date) _____ \$ _____

Balance of loan (just before refi) \$ _____

New "substantial improvements" \$ _____

So New Acquisition debt equals (subtotal) \$ _____

Subtract from loan amt

= \$ _____

New equity debt equals (maximum \$ 100,000) subtract \$ _____

Remaining amount (if any) ** \$ _____

**THIS INTEREST CAN NOT BE DEDUCTED ON SCHEDULE A AS PRINCIPAL RESIDENCE INTEREST. (Can possibly be deducted as 2nd home interest or investment interest or other schedules such as C or E, F if both properly allocated, sequenced and traced.)