From the desk of
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Deducting "Points"

Certain costs incurred when refinancing a mortgage whether that be for a personal residence or and investment property is eligible as a tax deduction.

Up front interest charges, or prepaid interest also known as "points" maybe deductible in certain circumstances depending upon the purpose of the loan.

- Points paid for the acquisition of a loan for the purpose of purchasing a home generally are deductible as home mortgage interest in the year of acquisition depending upon the size of the loan.

  If the total amount of debt acquired is less than $1,100,000.00, the entire amount of points paid is generally fully deductible.

  To the extent that the total amount of mortgage debt exceeds $1,100,000.00, a proration is required.

- Points paid solely to refinance a home mortgage usually must be deducted over the life of the loan;
- Points can be fully deducted in the year paid if certain tests are met.

For a refinanced mortgage the interest deduction for points is determined by dividing the points paid by the number of payments to be made over the life of the loan. The amortization of the "points" can only be made for those payments made in the tax year, in other words a proration of the prepaid interest in the first year is limited to the number of months in the first year that the loan is in existence.

Mortgage financing acquired to finance improvements to the home and if certain other conditions are met, the points associated with the home improvements may be fully deductible in the year the points were paid.

In the case where there is a remaining balance of unamortized points initiated from a previous financing the balance of the unamortized points paid for the first refinanced mortgage may be fully deductible in the year the original refinancing loan is paid off in full.

Points paid in conjunction in acquiring financing for any other property other than a primary residence must be amortized over the life of the loan as in the case of a secondary home, vacation residence, investment or rental property.

Similar to the above where there is subsequent financing points incurred and there are unamortized points existing from a previous loan, those points can be deducted to the extent of the unamortized amount in the year of the subsequent financing.

Other closing costs – such as appraisal fees and other non-interest fees – generally are not deductible but can be added to the cost o the property for the future calculation relating to the gain or loss on sale.

Additionally the amount of Adjusted Gross Income can affect the amount of deductions that can be taken.