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Possible Tax Breaks for Mortgage Points

If you are a homeowner or trying to become one, you may get caught up in all the associated expenses. Just to get into a home a buyer must come up with a down payment, usually amounting to several thousand dollars. Buyers must also prepare funds for closing costs and lenders fees. Thereafter, homeowners are responsible for keeping up with homeowners' insurance policies and property taxes, not to mention the general maintenance and repairs for the home.

Fortunately, the government does give a substantial break to homeowners by allowing them to deduct their mortgage interest from annual income taxes. While many people already realize this helpful tax advantage, many do not realize that mortgage points paid at the beginning of the loan may also be tax deductible, further aiding the plight of the American homeowner.

Mortgage points are commonly paid by home loan borrowers in order to "buy down" the interest rate they will receive on their mortgage. It is a trade-off between paying more money now or more money later. Lenders charge points both to decrease the risk factor of the loan and to make a nice up-front profit on the loan. One mortgage point is equal to 1% of the home loan value. For example, one point on a $100,000 loan would be $1000. Buyers can pay up to several points to drop the interest rate on their mortgage These points can also be paid on behalf of the borrower by the home seller. No matter who pays the points, the borrower/buyer gets to cash in on the tax savings.

The Internal Revenue System does place stipulations on when and how much of your mortgage points can be deducted. In order to fully deduct your mortgage points during the same year that you paid them, you must meet several requirements. The first is that you file your taxes so that the year you report income is the same year you received it and you claim tax deductions in the same year that you paid for the items or services. Also, the home you bought with the mortgage loan and points is your primary residence.

Next, it must be true that paying points in your home's region is a common procedure and that you were charged the average amount of points for your area. Another condition is that you must have paid at least as much in closing costs and your down payment as you were charged in mortgage points. If not, you will only be able to deduct part of the points in the first year. You will also forfeit a full deduction in the first year if your mortgage points were paid in order to lower the standard fees of a home loan. These include attorneys fees, property taxes, appraisal and title fees. For a complete list of regulations, you should visit the IRS website or contact an IRS agent.

When it comes time to file for the deduction, make sure that you receive a 1098 statement from your lender that clearly displays the amount of points you paid. You will then be able to deduct both your mortgage interest and points and save yourself a pretty penny. With all the expenses of buying and maintaining a home, it is at least nice to know that the government is supportive of the American dream by giving a financial break to homeowners.