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The Ins and Outs of Deducting Mortgage Interest

One of the great benefits of being a homeowner, besides having a roof over your head and a place to call your own, is the opportunity to deduct the interest you pay on the home's mortgage from your annual income taxes. When the federal government instituted the permanent income tax in 1913, all mortgage interest paid were tax deductible. Homeowners have been reaping the rewards ever since. While the laws are pretty straight forward, it is still a good idea to know the basics about how and when you can deduct your mortgage income from your taxes.

According to the IRS website, home mortgage interest is defined as "any interest you pay on a loan secured by your home (main home or a second home)." This means that you can also deduct the interest from any second mortgage, home equity line of credit, or refinance loan. Usually, you can deduct all of the mortgage interest you paid during the year on your annual tax filing. The following are the essential requirements in order to do so.

Requirements

• The first requirement is that your mortgage must be a loan secured by your "qualified" home. Qualified in this sense means that it must be your primary or secondary residence. This might be a house, a condominium, co-op, mobile home, house trailer, or boat, as long as the property 'that has sleeping, cooking, and toilet facilities."

• The second requirement is that you must be the legal, responsible person for the mortgage loan. The loan must be a traditional binding agreement that compels you to repay the borrowed funds and makes you liable for losses if you foreclose on the loan.

• Third, you are required to itemize your mortgage deductions on Schedule A of the 1040 tax form.

Special Extras

There may also be some other expenses in connection with your mortgage that you may be able to deduct as mortgage interest on your taxes. The following is a partial list of deductible charges.

• If you have any late payment charges on your mortgages, you can usually deduct this fee if it was not related to some other service for your mortgage.

• If your mortgage carries a pre-payment penalty and you decide to pay off your debt early due to refinancing or selling your home, you can deduct the entire penalty fee from your annual taxes.

• If you sold your home during the past year, you are still eligible to deduct any interest you paid on the loan for the part of the year before you sold the home.

• If you are receive a housing allowance due to your status as a minister or as military personnel, even though the allowance is not taxable, you are still lawfully allowed to deduct the interest on your home mortgage.

As with any tax law, there are many more exceptions and special circumstances that could affect your ability to deduct your mortgage interest. If you are worried that you fall into a special case, be sure to talk with a qualified tax professional. For basic cases of homeownership, all mortgage interest is tax deductible and can be a great financial relief for the average American homeowner.