

## Ten Often Overlooked Real Estate Tax Deductions

- 1 Home acquisition mortgage loan fees.** If you have bought a primary or secondary home in the past year, you probably obtained a mortgage to finance the purchase. That mortgage is called an “acquisition mortgage” because it enabled the 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 for each point paid.
- 2 Home improvement loan fees.** Similarly, 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 refinance your existing home loan, 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.
- 4 When refinancing, deduct any undeducted loan fees.** Thanks to low mortgage interest rates, many homeowners refinanced again after previously refinancing a year or two earlier. These homeowners should remember to deduct on the income tax returns any undeducted loan fees from a prior mortgage refinance.
- 5 If you bought or sold property in the past year, 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 the return.
- 6 Deduct prorated mortgage interest in the year of property purchase or sale.** Similarly, if you purchased a residence and took over an existing mortgage, don’t forget to deduct your prorated interest share for the month of the sale. 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 qualifies as an itemized deduction.
- 8 When land rent payments qualify as interest deductions.** Millions of homes are located on leased land. Internal Revenue Code 163 allows land rent to be deducted like interest when the lease (a) is for at least 15 years, including renewal policies; (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. 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 the past year, or are building one now, don’t forget to deduct the construction loan interest paid. It’s 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 current year’s real estate taxes last year, as homeowners do to increase their tax deductions, or if you pay your January mortgage payment in December of the previous year, don’t forget to deduct these extra mortgage interest and property tax payments on your income tax returns.