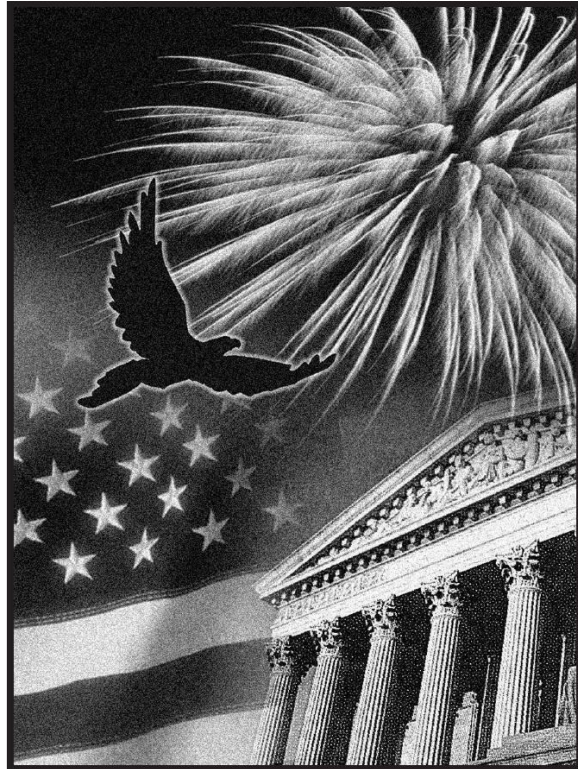


# Publication 530

## Tax Information for Homeowners

For use in preparing

Volume 1 of 2



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# What's New

**State and local tax (SALT) deduction limit increased.** The overall limit on the deduction for state and local income, sales, and property taxes has increased to \$40,000 (\$20,000 if married filing separately). The overall limit is reduced if your modified adjusted gross income is more than \$500,000 (\$250,000 if married filing separately) but will not be reduced below \$10,000 (\$5,000 if married filing separately).

**Termination of credits.** You can't claim residential clean energy credits for expenditures made after December 31, 2025. You can't claim energy efficient home improvement credits for any property placed in service after December 31, 2025. See the Instructions for Form 5695, Residential Energy Credits, for more information.

# Reminders

**Future developments.** For the latest information about developments related to Pub. 530, such as legislation enacted after it was published, go to [IRS.gov/Pub530](https://www.irs.gov/pub530).

**Home energy audits.** Beginning January 1, 2024, home energy audits must be performed by a Qualified Home Energy Auditor or under the supervision of a Qualified Home Energy Auditor. The Qualified Home Energy Auditor must be certified by a Qualified Certification Program. Taxpayers must maintain a written report provided by the Qualified Home Energy Auditor that identifies the most significant and cost-effective energy efficiency improvements for their home. This report must include an estimate of the energy and cost savings for each identified improvement. See the Instructions for Form 5695, Residential Energy Credits, for more information.

**Residential energy efficient property credit.** The residential energy efficient property credit is now the residential clean energy credit. The credit rate for property placed in service in 2022 through 2025 is 30%.

**Residential clean energy credit.** The residential clean energy credit added a credit for qualified battery storage technology expenditures made in 2022 through 2025.

**Energy efficient home improvement credit.** The nonbusiness energy property credit is now the energy efficient home improvement credit. The credit is allowed for property placed in service through December 31, 2025.

The energy efficient home improvement credit is now divided into two sections to differentiate between qualified energy efficiency improvements and residential energy property expenditures. There is no lifetime limit on the amount of the credit.

See the Instructions for Form 5695 for more information.

**Mortgage insurance premiums.** The itemized deduction for mortgage insurance premiums has expired. You can no longer claim the deduction.

**Home Affordable Modification Program (HAMP).** If you benefit from Pay-for-Performance Success Payments, the payments aren't taxable under HAMP.

**Home equity loan interest.** No matter when the indebtedness was incurred, for tax years beginning in 2018 through 2025, you cannot deduct the interest from a loan secured by your home to the extent the loan proceeds weren't used to buy, build, or substantially improve your home.

**Homeowner Assistance Fund.** The Homeowner Assistance Fund program (HAF) was established to provide financial assistance to eligible homeowners for

purposes of paying certain expenses related to their principal residence to prevent mortgage delinquencies, defaults, foreclosures, loss of utilities or home energy services, and also displacements of homeowners experiencing financial hardship after January 21, 2020. If you are a homeowner who received assistance under the HAF, the payments from the HAF program are not considered income to you and you cannot take a deduction or credit for expenditures paid from the HAF program.

Revenue Procedure 2021-47 provides an optional method for certain homeowners who itemize their deductions to determine the amount you can deduct for home mortgage interest and state and local real property taxes if you paid the mortgage servicer with your own funds but also received financial assistance from the HAF program described in Revenue Procedure 2021-47.



Though Revenue Procedure 2021-47 provides for the possible deduction of home mortgage insurance premiums, you cannot deduct any home mortgage insurance premiums you paid after 2021. For more details about the HAF program, see [Homeowner Assistance Fund](#). You may use the optional method if you meet the following two requirements.

1. You paid a portion of the mortgage interest or state and local real property taxes from your own sources (that is, out-of-pocket payments not subsidized by any governmental financial assistance programs).
2. You meet the rules to deduct all of the mortgage interest on your loan and all of the real estate taxes on your main home.

The optional method allows you to deduct the mortgage interest and state and local real property taxes reported on Form 1098, Mortgage Interest Statement,

but only up to the amount you paid from your own sources to the mortgage servicer during the tax year. You are not required to use this optional method to figure your deduction for mortgage interest and state and local real property taxes on your main home.

See *State and Local Real Estate Taxes and Home Mortgage Interest*, later, to determine whether you meet the rules to deduct all of the mortgage interest on your loan and all of the real estate taxes on your main home. For more details about the HAF program, see Homeowner Assistance Fund at [Treasury.gov/haf](https://www.treasury.gov/haf). If you received HAF funds from an Indian Tribal Government or an Alaska Native Corporation and want more details about the HAF program, see frequently asked questions (FAQs) at [IRS.gov/ITGANCFAQs](https://www.irs.gov/ITGANCFAQs).

**Caution:** See *State and Local Real Estate Taxes and Home Mortgage Interest*, later, to determine whether you meet the rules to

deduct all of the mortgage interest on your loan and all of the real estate taxes on your main home.

**Extended tax benefit.** Certain tax benefits, including the following, that were set to expire have been extended.

- The nonbusiness energy property credit has changed to the energy efficient home improvement credit. The credit is allowed for property placed in service through 2025.
- The exclusion from income of discharges of qualified principal residence indebtedness has been extended until January 1, 2026.

**Residential energy credits.** You may be able to take a credit if you made energy saving improvements to your home located in the United States in 2025. See the Instructions for Form 5695, Residential Energy Credits, for more information.

**Mortgage debt forgiveness.** You can exclude from gross income any discharges of qualified principal residence indebtedness made after 2006 and in most cases before 2026. You must reduce the basis of your principal residence (but not below zero) by the amount you exclude. See *Discharges of qualified principal residence indebtedness*, later, and Form 982, Reduction of Tax Attributes Due to Discharge of Indebtedness (and Section 1082 Basis Adjustment) for more information.

**Photographs of missing children.** The IRS is a proud partner with the [National Center for Missing & Exploited Children® \(NCMEC\)](#). Photographs of missing children selected by the Center may appear in this publication on pages that would otherwise be blank. You can help bring these children home by looking at the photographs and calling 1-800-THE-LOST (1-800-843-5678) if you recognize a child.

# Introduction

This publication provides tax information for homeowners. Your home may be a house, condominium, cooperative apartment, mobile home, houseboat, or house trailer that contains sleeping space and toilet and cooking facilities.

This publication explains how you treat items such as settlement and closing costs, real estate taxes, sales taxes, home mortgage interest, and repairs.

The following topics are explained.

- What you can and can't deduct on your tax return.
- The tax credit you can claim if you received a mortgage credit certificate when you bought your home.
- Why you should keep track of adjustments to the basis of your home. (Your home's basis is generally what it cost;

adjustments include the cost of any improvements you might make.)

- What records you should keep as proof of the basis and adjusted basis.

**Comments and suggestions.** We welcome your comments about this publication and suggestions for future editions.

You can send us comments through [IRS.gov/FormComments](https://www.irs.gov/FormComments). Or, you can write to the Internal Revenue Service, Tax Forms and Publications, 1111 Constitution Ave. NW, IR-6526, Washington, DC 20224.

Although we can't respond individually to each comment received, we do appreciate your feedback and will consider your comments and suggestions as we revise our tax forms, instructions, and publications.

**Don't** send tax questions, tax returns, or payments to the above address.

***Getting answers to your tax questions.*** If you have a tax question not answered by this publication or the *How To Get Tax Help* section at the end of this publication, go to the IRS Interactive Tax Assistant page at [IRS.gov/ Help/ITA](https://www.irs.gov/help/ita) where you can find topics by using the search feature or viewing the categories listed.

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## Useful Items

You may want to see:

### Publication

- ☐ **4681** Canceled Debts, Foreclosures, Repossessions, and Abandonments
- ☐ **523** Selling Your Home
- ☐ **525** Taxable and Nontaxable Income
- ☐ **527** Residential Rental Property
- ☐ **547** Casualties, Disasters, and Thefts
- ☐ **551** Basis of Assets
- ☐ **555** Community Property
- ☐ **587** Business Use of Your Home
- ☐ **936** Home Mortgage Interest Deduction
- ☐ **Form (and Instructions)**
- ☐ **Schedule A (Form 1040)**  
Itemized Deductions



- ❑ **5695** Residential Energy Credits
- ❑ **8396** Mortgage Interest Credit
- ❑ **982** Reduction of Tax Attributes Due to Discharge of Indebtedness (and Section 1082 Basis Adjustment)

See *How To Get Tax Help*, near the end of this publication, for information about getting publications and forms.

## **What You Can and Can't Deduct**

To deduct expenses of owning a home, you must file Form 1040, U.S. Individual Income Tax Return, or Form 1040-SR, U.S. Income Tax Return for Seniors, and itemize your deductions on Schedule A (Form 1040). If you itemize, you can't take the standard deduction.

This section explains what expenses you can deduct as a homeowner. It also points out expenses that you can't deduct.

There are three primary discussions: state and local real estate taxes, sales taxes, and home mortgage interest.

Generally, your real estate taxes and home mortgage interest are included in your house payment.

**Your house payment.** If you took out a mortgage (loan) to finance the purchase of your home, you probably have to make monthly house payments. Your house payment may include several costs of owning a home. The only costs you can deduct are state and local real estate taxes actually paid to the taxing authority and interest that qualifies as home mortgage interest. These are discussed in more detail later.

Some nondeductible expenses that may be included in your house payment include:

- Fire or homeowner's insurance premiums,
- Mortgage insurance premiums, and

- The amount applied to reduce the principal of the mortgage.

### **Minister's or military housing allowance.**

If you are a minister or a member of the uniformed services and receive a housing allowance that isn't taxable, you can still deduct your real estate taxes and your home mortgage interest. You don't have to reduce your deductions by your nontaxable allowance. For more information, see Pub. 517, *Social Security and Other Information for Members of the Clergy and Religious Workers*, and Pub. 3, *Armed Forces' Tax Guide*.

**Nondeductible payments.** You can't deduct any of the following items.

- Insurance, including fire and comprehensive coverage, and title insurance.
- Wages you pay for domestic help.
- Depreciation.

- The cost of utilities, such as gas, electricity, or water.
- Most settlement costs. See *Settlement or closing costs* under *Cost as Basis*, later, for more information.
- Forfeited deposits, down payments, or earnest money.
- Internet or wifi system or service.
- Homeowners association fees, condominium association fees, or common charges.
- Repairs to home.

## **State and Local Real Estate Taxes**

Most state and local governments charge an annual tax on the value of real property. This is called a real estate tax. You can deduct the tax if it is assessed uniformly at a like rate on all real property throughout the community.

The proceeds must be for general community or governmental purposes and not be a payment for a special privilege granted or special service rendered to you.

**Caution:** The state and local tax deduction limit increased. The overall limit on the deduction for state and local income, sales, and property tax has increased to \$40,000 (\$20,000 if married filing separately). For more information, see the Instructions for Schedule A (Form 1040).

## **Deductible Real Estate Taxes**

You can deduct real estate taxes imposed on you. You must have paid them either at settlement or closing, or to a taxing authority (either directly or through an escrow account) during the year. If you own a cooperative apartment, see *Special Rules for Cooperatives*, later.

**Where to deduct real estate taxes.** Enter the amount of your deductible state and local real estate taxes on Schedule A (Form 1040), line 5b.

**Real estate taxes paid at settlement or closing.** Real estate taxes are generally divided so that you and the seller each pay taxes for the part of the property tax year you owned the home. Your share of these taxes is deductible if you itemize your deductions.

***Division of real estate taxes.*** For federal income tax purposes, the seller is treated as paying the property taxes up to but not including the date of sale. You (the buyer) are treated as paying the taxes beginning with the date of sale. This applies regardless of the lien dates under local law. Generally, this information is included on the settlement statement you get at closing.

You and the seller each are considered to have paid your own share of the taxes, even

if one or the other paid the entire amount. You each can deduct your own share, if you itemize deductions, for the year the property is sold.

**Example.** You bought your home on September 1. The property tax year (the period to which the tax relates) in your area is the calendar year. The tax for the year was \$730 and was due and paid by the seller on August 15.

You owned your new home during the property tax year for 122 days (September 1 to December 31, including your date of purchase). You figure your deduction for real estate taxes on your home as follows.

1. Enter the total real estate taxes  
for the real property tax year ... \$730
2. Enter the number of days in the  
property tax year that you  
owned the property ..... 122

3. Divide line 2 by 365 ..... 0.3342
4. Multiply line 1 by line 3. This is your deduction. Enter it on Schedule A (Form 1040), line 5b \$244

You can deduct \$244 on your return for the year if you itemize your deductions. You are considered to have paid this amount and can deduct it on your return even if, under the contract, you didn't have to reimburse the seller.

***Delinquent taxes.*** Delinquent taxes are unpaid taxes that were imposed on the seller for an earlier tax year. If you agree to pay delinquent taxes when you buy your home, you can't deduct them. You treat them as part of the cost of your home. See *Real estate taxes*, later, under *Basis*.

**Escrow accounts.** Many monthly house payments include an amount placed in escrow (put in the care of a third party) for real estate taxes.



You may not be able to deduct the total you pay into the escrow account. You can deduct only the real estate taxes that the lender actually paid from escrow to the taxing authority. Your real estate tax bill will show this amount.

**Refund or rebate of real estate taxes.** If you receive a refund or rebate of real estate taxes this year for amounts you paid this year, you must reduce your real estate tax deduction by the amount refunded to you. If the refund or rebate was for real estate taxes paid for a prior year, you may have to include some or all of the refund in your income. For more information, see *Recoveries* in Pub. 525.

## **Items You Can't Deduct as Real Estate Taxes**

The following items aren't deductible as real estate taxes.

**Charges for services.** An itemized charge for services to specific property or people isn't

a tax, even if the charge is paid to the taxing authority. You can't deduct the charge as a real estate tax if it is:

- A unit fee for the delivery of a service (such as a \$5 fee charged for every 1,000 gallons of water you use),
- A periodic charge for a residential service (such as a \$20 per month or \$240 annual fee charged to each homeowner for trash collection), or
- A flat fee charged for a single service provided by your local government (such as a \$30 charge for mowing your lawn because it had grown higher than permitted under a local ordinance).

**Caution:** You must look at your real estate tax bill to decide if any nondeductible itemized charges, such as those listed above, are included in the bill. If your taxing authority (or lender) doesn't furnish you a copy of your real estate tax bill, ask for it.

Contact the taxing authority if you need additional information about a specific charge on your real estate tax bill.

**Assessments for local benefits.** You can't deduct amounts you pay for local benefits that tend to increase the value of your property. Local benefits include the construction of streets, sidewalks, or water and sewer systems. You must add these amounts to the basis of your property.

You can, however, deduct assessments (or taxes) for local benefits if they are for maintenance, repair, or interest charges related to those benefits. An example is a charge to repair an existing sidewalk and any interest included in that charge.

If only a part of the assessment is for maintenance, repair, or interest charges, you must be able to show the amount of that part to claim the deduction.

If you can't show what part of the assessment is for maintenance, repair, or interest charges, you can't deduct any of it.

An assessment for a local benefit may be listed as an item in your real estate tax bill. If so, use the rules in this section to find how much of it, if any, you can deduct.

**Transfer taxes (or stamp taxes).** You can't deduct transfer taxes and similar taxes and charges on the sale of a personal home. If you are the buyer and you pay them, include them in the cost basis of the property. If you are the seller and you pay them, they are expenses of the sale and reduce the amount realized on the sale.

**Homeowners' association assessments.** You can't deduct these assessments because the homeowners' association, rather than a state or local government, imposes them.

## **Foreign taxes you paid on real estate.**

You can't deduct foreign taxes you paid on real estate.

## **Special Rules for Cooperatives**

If you own a cooperative apartment, some special rules apply to you, though you generally receive the same tax treatment as other homeowners. As an owner of a cooperative apartment, you own shares of stock in a corporation that owns or leases housing facilities. You can deduct your share of the corporation's deductible real estate taxes if the cooperative housing corporation meets the following conditions.

1. The corporation has only one class of stock outstanding.
2. Each stockholder, solely because of ownership of the stock, can live in a house, apartment, or house trailer owned or leased by the corporation.

3. No stockholder can receive any distribution out of capital, except on a partial or complete liquidation of the corporation.
4. At least one of the following.
  - a. At least 80% of the corporation's gross income for the tax year was paid by the tenant-stockholders. For this purpose, gross income means all income received during the entire tax year, including any received before the corporation changed to cooperative ownership.
  - b. At least 80% of the total square footage of the corporation's property must be available for use by the tenant-stockholders during the entire tax year.

- c. At least 90% or more of the expenditures paid or incurred by the corporation were used for the acquisition, construction, management, maintenance, or care of the corporation's property for the benefit of the tenant-shareholders during the entire tax year.

**Tenant-stockholders.** A tenant-stockholder can be any entity (such as a company or corporation, trust, estate, partnership, or association) as well as an individual. The tenant-stockholder doesn't have to live in any of the cooperative's dwelling units. The units that the tenant-stockholder has the right to occupy can be rented to others.

**Deductible taxes.** You figure your share of real estate taxes in the following way.

1. Divide the number of your shares of stock by the total number of shares

outstanding, including any shares held by the corporation.

2. Multiply the corporation's deductible real estate taxes by the number you figured in (1). This is your share of the real estate taxes.

Generally, the corporation will tell you your share of its real estate tax. This is the amount you can deduct if it reasonably reflects the cost of real estate taxes for your dwelling unit.

***Refund of real estate taxes.*** If the corporation receives a refund of real estate taxes it paid in an earlier year, it must reduce the amount of real estate taxes paid this year when it allocates the tax expense to you. Your deduction for real estate taxes the corporation paid this year is reduced by your share of the refund the corporation received.



# Sales Taxes

Generally, you can elect to deduct state and local general sales taxes instead of state and local income taxes as an itemized deduction on Schedule A (Form 1040). You must check the box on Schedule A (Form 1040), line 5a, if you elect this option. Deductible sales taxes may include sales taxes paid on your home (including mobile and prefabricated), or home building materials if the tax rate was the same as the general sales tax rate. For information on figuring your deduction, see the Instructions for Schedule A (Form 1040).

**Caution:** The overall limit on the deduction for state and local income, sales, and property tax has increased to \$40,000 (\$20,000 if married filing separately). For more information, see the Instructions for Schedule A (Form 1040).

**Caution:** If you elect to deduct the sales taxes paid on your home, or home building

materials, you can't include them as part of your cost basis in the home.

## **Home Mortgage Interest**

This section of the publication gives you basic information about home mortgage interest, including information on interest paid at settlement, points, and Form 1098.

Most home buyers take out a mortgage (loan) to buy their home. They then make monthly payments to either the mortgage holder or someone collecting the payments for the mortgage holder.

Usually, you can deduct the entire part of your payment that is for mortgage interest for acquisition debt (or debt that qualifies as acquisition debt) if you itemize your deductions on Schedule A (Form 1040). See *Home Acquisition Debt* for more information.

**Limits on home mortgage interest.** Your deduction for home mortgage interest is subject to a number of limits.

If one or more of the following limits apply, see Pub. 936 to figure your deduction. Also see Pub. 936 if you later refinance your mortgage or buy a second home.

***Limit for loan proceeds not used to buy, build, or substantially improve your home.*** You can only deduct home mortgage interest to the extent that the loan proceeds from your home mortgage are used to buy, build, or substantially improve the home securing the loan. The only exception to this limit is for loans taken out on or before October 13, 1987; the loan proceeds for these loans are treated as having been used to buy, build, or substantially improve the home. See Pub. 936 for more information about loans taken out on or before October 13, 1987.

***Limit on loans taken out on or before December 15, 2017.*** For qualifying debt taken out on or before December 15, 2017, you can only deduct home mortgage interest on up to \$1 million (\$500,000 if you are married filing separately) of that debt. The only exception is for loans taken out on or before October 13, 1987; see Pub. 936 for more information about loans taken out on or before October 13, 1987.

See Pub. 936 to figure your deduction if you have loans taken out on or before December 15, 2017, that exceed \$1 million (\$500,000 if you are married filing separately).

***Limit on loans taken out after December 15, 2017.*** For qualifying debt taken out after December 15, 2017, you can only deduct home mortgage interest on up to \$750,000 (\$375,000 if you are married filing separately) of that debt. If you also have qualifying debt subject to the \$1 million (\$500,000 if you are married filing

separately) limitation discussed under *Limit on loans taken out on or before December 15, 2017*, earlier, the \$750,000 limit for debt taken out after December 15, 2017, is reduced by the amount of your qualifying debt subject to the \$1 million limit. An exception exists for certain loans taken out after December 15, 2017, but before April 1, 2018. If the exception applies, your loan may be treated in the same manner as a loan taken out on or before December 15, 2017. See Pub. 936 for more information about this exception.

See Pub. 936 to figure your deduction if you have loans taken out after October 13, 1987, that exceed \$750,000 (\$375,000 or less if you are married filing separately).

***Limit when loans exceed the fair market value of the home.*** If the total amount of all mortgages is more than the fair market value of the home, see Pub. 936 to figure your deduction.

**Refund of home mortgage interest.** If you receive a refund of home mortgage interest that you deducted in an earlier year and that reduced your tax, you must generally include the refund in income in the year you receive it. For more information, see *Recoveries* in Pub. 525. The amount of the refund will usually be shown on the mortgage interest statement you receive from your mortgage lender. See *Mortgage Interest Statement*, later.

## **Deductible Mortgage Interest**

To be deductible, the interest you pay must be on a loan secured by your main home or a second home, regardless of how the loan is labeled. The loan can be a first or second mortgage, a home improvement loan, a home equity loan, or a refinanced mortgage.

**Caution:** Interest paid on home mortgage proceeds is only deductible to the extent the loan proceeds were used to buy, build, or substantially improve your home.

**Prepaid interest.** If you pay interest in advance for a period that goes beyond the end of the tax year, you must spread this interest over the tax years to which it applies. Generally, you can deduct in each year only the interest that qualifies as home mortgage interest for that year. An exception (discussed later) applies to points.

**Late payment charge on mortgage payment.** You can deduct as home mortgage interest a late payment charge if it wasn't for a specific service in connection with your mortgage loan.

**Mortgage prepayment penalty.** If you pay off your home mortgage early, you may have to pay a penalty. You can deduct that penalty as home mortgage interest, provided the penalty isn't for a specific service performed or cost incurred in connection with your mortgage loan.

**Ground rent.** In some states (such as Maryland), you may buy your home subject

to a ground rent. A ground rent is an obligation you assume to pay a fixed amount per year on the property. Under this arrangement, you are leasing (rather than buying) the land on which your home is located.

***Redeemable ground rents.*** If you make annual or periodic rental payments on a redeemable ground rent, you can deduct the payments as mortgage interest. The ground rent is a redeemable ground rent only if all of the following are true.

- Your lease, including renewal periods, is for more than 15 years.
- You can freely assign the lease.
- You have a present or future right (under state or local law) to end the lease and buy the lessor's entire interest in the land by paying a specified amount.



- The lessor's interest in the land is primarily a security interest to protect the rental payments to which the lessor is entitled.

Payments made to end the lease and buy the lessor's entire interest in the land aren't redeemable ground rents. You can't deduct them.

***Nonredeemable ground rents.*** Payments on a nonredeemable ground rent aren't mortgage interest. You can deduct them as rent only if they are a business expense or if they are for rental property.

**Cooperative apartment.** You can usually treat the interest on a loan you took out to buy stock in a cooperative housing corporation as home mortgage interest if you own a cooperative apartment, and the cooperative housing corporation meets the conditions described earlier under *Special Rules for Cooperatives*.

In addition, you can treat as home mortgage interest your share of the corporation's deductible mortgage interest. Figure your share of mortgage interest the same way that is shown for figuring your share of real estate taxes in the *Example* under *Division of real estate taxes*, earlier. For more information on cooperatives, see *Special Rule for Tenant-Stockholders in Cooperative Housing Corporations* in Pub. 936.

***Refund of cooperative's mortgage***

***interest.*** You must reduce your mortgage interest deduction by your share of any cash portion of a patronage dividend that the cooperative receives. The patronage dividend is a partial refund to the cooperative housing corporation of mortgage interest it paid in a prior year.

If you receive a Form 1098 from the cooperative housing corporation, the form should show only the amount you can deduct.

**Small Business Administration (SBA) disaster home loans.** Interest paid on disaster home loans from the SBA is deductible as mortgage interest if the requirements discussed earlier under Home Mortgage Interest are met.

## **Mortgage Interest Paid at Settlement**

One item that normally appears on a settlement or closing statement is home mortgage interest.

You can deduct the interest that you pay at settlement if you itemize your deductions on Schedule A (Form 1040). This amount should be included in the mortgage interest statement provided by your lender. See the discussion under Mortgage Interest Statement, later. Also, if you pay interest in advance, see Prepaid interest, earlier, and *Points* next.

## Points

The term “points” is used to describe certain charges paid or treated as paid by a borrower to obtain a home mortgage. Points may also be called loan origination fees, maximum loan charges, loan discount, or discount points.

A borrower is treated as paying any points that a home seller pays for the borrower's mortgage. See *Points paid by the seller*, later.

**General rule.** You can't deduct the full amount of points in the year paid.

They are prepaid interest, so you must generally deduct them over the life (term) of the mortgage.

**Exception.** You can deduct the full amount of points in the year paid if you meet all the following tests.

1. Your loan is secured by your main home. (Generally, your main home is the one you live in most of the time.)

2. Paying points is an established business practice in the area where the loan was made.
3. The points paid weren't more than the points generally charged in that area.
4. You use the cash method of accounting. This means you report income in the year you receive it and deduct expenses in the year you pay them. Most individuals use this method.
5. The points weren't paid in place of amounts that are ordinarily stated separately on the settlement statement, such as appraisal fees, inspection fees, title fees, attorney fees, and property taxes.
6. The funds you provided at or before closing plus any points the seller paid were at least as much as the points charged.

The funds you provided aren't required to have been applied to the points. They can include a down payment, an escrow deposit, earnest money, and other funds you paid at or before closing for any purpose. You can't have borrowed these funds.

7. You use your loan to buy or build your main home.
8. The points were figured as a percentage of the principal amount of the mortgage.
9. The amount is clearly shown on the settlement statement (such as the Uniform Settlement Statement, Form HUD-1) as points charged for the mortgage. The points may be shown as paid from either your funds or the seller's.

**Note:** If you meet all of the tests listed above and you itemize your deductions in the

year you get the loan, you can either deduct the full amount of points in the year paid or deduct them over the life of the loan beginning in the year you get the loan. If you do not itemize your deductions in the year you get the loan, you can spread the points over the life of the loan and deduct the appropriate amount in each future year, if any, when you do itemize your deductions.

***Home improvement loan.*** You can also fully deduct in the year paid points paid on a loan to substantially improve your main home if you meet the first six tests listed earlier.

***Refinanced loan.*** If you use part of the refinanced mortgage proceeds to substantially improve your main home and you meet the first six tests listed earlier, you can fully deduct the part of the points related to the improvement in the year you paid them with your own funds. You can deduct the rest of the points over the life of the loan.

***Points not fully deductible in year paid.*** If you don't qualify under the exception to deduct the full amount of points in the year paid (or choose not to do so), see *Points* in Pub. 936 for the rules on when and how much you can deduct.

***Figure A.*** You can use Figure A as a quick guide to see whether your points are fully deductible in the year paid.

**Amounts charged for services.** Amounts charged by the lender for specific services connected to the loan aren't interest. Examples of these charges are:

- Appraisal fees,
- Notary fees,
- Preparation costs for the mortgage note or deed of trust, and
- Mortgage insurance premiums.



You can't deduct these amounts as points either in the year paid or over the life of the mortgage. For information about the tax treatment of these amounts and other settlement fees and closing costs, see Basis, later.

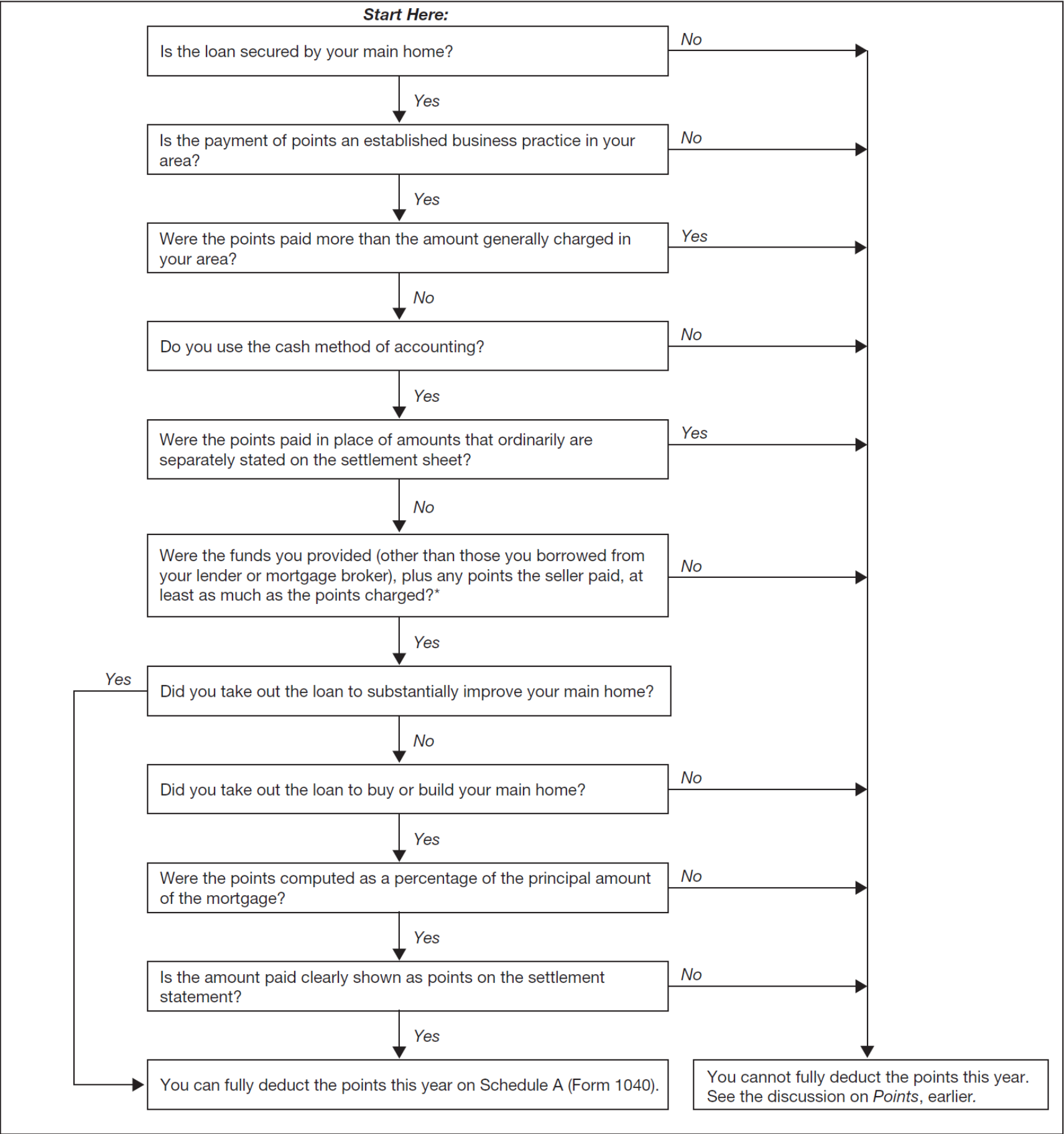
**Points paid by the seller.** The term “points” includes loan placement fees that the seller pays to the lender to arrange financing for the buyer.

***Treatment by seller.*** The seller can't deduct these fees as interest. However, they are a selling expense that reduces the seller's amount realized. See Pub. 523 for more information.

***Treatment by buyer.*** The buyer treats seller-paid points as if the buyer had paid them. If all the tests listed earlier under Exception are met, the buyer can deduct the points in the year paid. If any of those tests aren't met, the buyer must deduct the points over the life of the loan.

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Figure A. **Are My Points Fully Deductible This Year?**



\* The funds you provided are not required to have been applied to the points. They can include a down payment, an escrow deposit, earnest money, and other funds you paid at or before closing for any purpose.

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The buyer must also reduce the basis of the home by the amount of the seller-paid points. For more information about the basis of your home, see Basis, later.

**Funds provided are less than points.** If you meet all the tests listed earlier under Exception except that the funds you provided were less than the points charged to you (test 6), you can deduct the points in the year paid up to the amount of funds you provided. In addition, you can deduct any points paid by the seller.

**Example 1.** When you took out a \$100,000 mortgage loan to buy your home in December, you were charged one point (\$1,000). You meet all the tests for deducting points in the year paid (see Exception, earlier), except the only funds you provided were a \$750 down payment. Of the \$1,000 you were charged for points, you can deduct \$750 in the year paid. You spread the remaining \$250 over the life of the mortgage.

**Example 2.** The facts are the same as in *Example 1*, except that the person who sold you your home also paid one point (\$1,000) to help you get your mortgage. In the year paid, you can deduct \$1,750 (\$750 of the amount you were charged plus the \$1,000 paid by the seller). You spread the remaining \$250 over the life of the mortgage. You must reduce the basis of your home by the \$1,000 paid by the seller.

**Excess points.** If you meet all the tests under *Exception*, earlier, except that the points paid were more than are generally charged in your area (test 3), you can deduct in the year paid only the points that are generally charged.

You must spread any additional points over the life of the mortgage.

**Mortgage ending early.** If you spread your deduction for points over the life of the mortgage, you can deduct any remaining balance in the year the mortgage ends. A

mortgage may end early due to a prepayment, refinancing, foreclosure, or similar event.

**Example.** You paid \$3,000 in points in 2017 that you had to spread out over the 15-year life of your mortgage.

You deducted \$1,600 of these points through 2024.

You prepaid your mortgage in full in 2025. You can deduct the remaining \$1,400 of points in 2025.

**Exception.** If you refinance the mortgage with the same lender, you can't deduct any remaining points for the year. Instead, deduct them over the term of the new loan.

**Form 1098.** The mortgage interest statement you receive should show not only the total interest paid during the year but also your deductible points paid during the year. See Mortgage Interest Statement, later.

## **Where To Deduct Home Mortgage Interest**

Enter on Schedule A (Form 1040), line 8a, the home mortgage interest and points reported to you on Form 1098 (discussed next). If you didn't receive a Form 1098, enter your deductible interest on line 8b and any deductible points on line 8c. See Table 1 for a summary of where to deduct home mortgage interest and state and local real estate taxes.

If you paid home mortgage interest to the person from whom you bought your home, show that person's name, address, and social security number (SSN) or employer identification number (EIN) on the dotted lines next to line 8b. The seller must give you this number and you must give the seller your SSN. Form W-9, Request for Taxpayer Identification Number and Certification, can be used for this purpose. Failure to meet either of these requirements may result in a \$50 penalty for each failure.



## **Mortgage Interest Statement**

If you paid \$600 or more of mortgage interest (including certain points during the year) on any one mortgage to a mortgage holder in the course of that holder's trade or business, you should receive a Form 1098 or similar statement from the mortgage holder. The statement will show the total interest paid on your mortgage during the year. If you bought a main home during the year, it will also show the deductible points you paid and any points you can deduct that were paid by the person who sold you your home. See *Points*, earlier.

The interest you paid at settlement should be included on the statement. If it isn't, add the interest from the settlement sheet that qualifies as home mortgage interest to the total shown on Form 1098 or similar statement. Put the total on Schedule A (Form 1040), line 8a, and attach a statement to your return explaining the difference.

Enter "See attached" to the right of line 8a.

A mortgage holder can be a financial institution, a governmental unit, or a cooperative housing corporation. If a statement comes from a cooperative housing corporation, it will generally show your share of interest.

Your mortgage interest statement for 2025 should be provided or sent to you by January 31, 2026. If it is mailed, you should allow adequate time to receive it before contacting the mortgage holder. A copy of this form will also be sent to the IRS.

***Example.*** You bought a new home on May 3. You paid no points on the purchase. During the year, you made mortgage payments that included \$4,480 deductible interest on your new home. The settlement sheet for the purchase of the home included interest of \$620 for 29 days in May.

The mortgage statement you receive from the lender includes total interest of \$5,100 (\$4,480 + \$620). You can deduct the \$5,100 if you itemize your deductions.

**Refund of overpaid interest.** If you receive a refund of mortgage interest you overpaid in a prior year, you will generally receive a Form 1098 showing the refund in box 4. Generally, you must include the refund in income in the year you receive it. See *Refund of home mortgage interest*, earlier, under *Home Mortgage Interest*.

**More than one borrower.** If you and at least one other person (other than your spouse if you file a joint return) were liable for and paid interest on a mortgage that was for your home, and the other person received a Form 1098 showing the interest that was paid during the year, attach a statement to your paper return explaining this.

Show how much of the interest each of you paid and give the name and address of the person who received the form. Deduct your share of the interest on Schedule A (Form 1040), line 8b, and enter "See attached" to the right of that line.

## **Home Acquisition Debt**

Home acquisition debt is a mortgage you took out after October 13, 1987, to buy, build, or substantially improve a qualified home. It must also be secured by that home.

If the amount of your mortgage is more than the cost of the home plus the cost of any substantial improvements, only the debt that is not more than the cost of the home plus improvements qualifies as home acquisition debt.

**Home acquisition debt limit.** With the exception of grandfathered debt, the total amount you can treat as home acquisition debt at any time on your home cannot be

more than \$1 million (\$500,000 if married filing separately). However, for tax years beginning after 2017, there is a further limitation. If you purchased your home during this time, the total amount you can treat as home acquisition debt at any time on your home generally cannot be more than \$750,000 (\$375,000 if married filing separately). See Pub. 936, Home Mortgage Interest Deduction, for more information.

**Discharges of qualified principal residence indebtedness.** You can exclude from gross income any discharges of qualified principal residence indebtedness made after 2006 and in most cases before 2026. You must reduce the basis of your principal residence (but not below zero) by the amount you exclude.

***Principal residence.*** Your principal residence is the home where you ordinarily live most of the time. You can have only one principal residence at any one time.

## Table 1. **Where To Deduct Interest and Taxes Paid on Your Home**

*See the text for information on what expenses are eligible.*

<b>IF you are eligible to deduct</b>	<b>THEN report the amount on Schedule A (Form 1040) . . .</b>
state and local real estate taxes	line 5b.
home mortgage interest and points reported on Form 1098	line 8a.
home mortgage interest not	line 8b.

reported on Form 1098	
points not reported on Form 1098	line 8c.

### ***Qualified principal residence***

***indebtedness.*** This indebtedness is a mortgage that you took out to buy, build, or substantially improve your principal residence and that is secured by that residence. If the amount of your original mortgage is more than the cost of your principal residence plus the cost of substantial improvements, qualified principal residence indebtedness can't be more than the cost of your principal residence plus improvements.

Any debt secured by your principal residence that you use to refinance qualified principal residence indebtedness is qualified principal residence indebtedness up to the amount of your old mortgage principal just before the

refinancing. Additional debt incurred to substantially improve your principal residence is also qualified principal residence indebtedness.

***Amount you can exclude.*** You can only exclude debt discharged after 2006 and in most cases before 2026. The most you can exclude is \$750,000 (\$375,000 if married filing separately). You can't exclude any amount that was discharged because of services performed for the lender or on account of any other factor not directly related either to a decline in the value of your residence or to your financial condition.

***Ordering rule.*** If only a part of a loan is qualified principal residence indebtedness, you can exclude only the amount of the discharge that is more than the amount of the loan (immediately before the discharge) that is not qualified principal residence indebtedness.



## **Qualified Home**

This means your main home or your second home. A home includes a house, condominium, cooperative, mobile home, house trailer, boat, or similar property that has sleeping, cooking, and toilet facilities.

**Main home.** You can have only one main home at any one time. This is the home where you ordinarily live most of the time.

**Second home and other special situations.** If you have a second home, use part of your home for other than residential living (such as a home office), rent out part of your home, or are having your home constructed, see *Qualified Home* in Pub. 936.

## **Mortgage Interest Credit**

The mortgage interest credit is intended to help lower-income individuals afford home ownership.

If you qualify, you can claim the credit on Form 8396 each year for part of the home mortgage interest you pay.

**Who qualifies.** You may be eligible for the credit if you were issued a qualified Mortgage Credit Certificate (MCC) from your state or local government. Generally, an MCC is issued only in connection with a new mortgage for the purchase of your main home.

The MCC will show the certificate credit rate you will use to figure your credit. It will also show the certified indebtedness amount. Only the interest on that amount qualifies for the credit. See *Figuring the Credit*, later.

**Tip:** You must contact the appropriate government agency about getting an MCC before you get a mortgage and buy your home. Contact your state or local housing finance agency for information about the availability of MCCs in your area.

**How to claim the credit.** To claim the credit, complete Form 8396 and attach it to your Form 1040, 1040-SR, or 1040-NR. Include the credit in your total for Schedule 3 (Form 1040), line 6g.

**Reducing your home mortgage interest deduction.** If you itemize your deductions on Schedule A (Form 1040), you must reduce your home mortgage interest deduction by the amount of the mortgage interest credit shown on Form 8396, line 3. You must do this even if part of that amount is to be carried forward to 2026.

**Selling your home.** If you purchase a home after 1990 using an MCC, and you sell that home within 9 years, you may have to recapture (repay) all or part of the benefit you received from the MCC program. For additional information, see *Paying Back Credits and Subsidies* in Pub. 523.

## **Figuring the Credit**

Figure your credit on Form 8396.

**Mortgage not more than certified indebtedness.** If your mortgage loan amount is equal to (or smaller than) the certified indebtedness amount shown on your MCC, enter on Form 8396, line 1, all the interest you paid on your mortgage during the year.

**Mortgage more than certified indebtedness.** If your mortgage loan amount is larger than the certified indebtedness amount shown on your MCC, you can figure the credit on only part of the interest you paid. To find the amount to enter on line 1, multiply the total interest you paid during the year on your mortgage by the following fraction.