

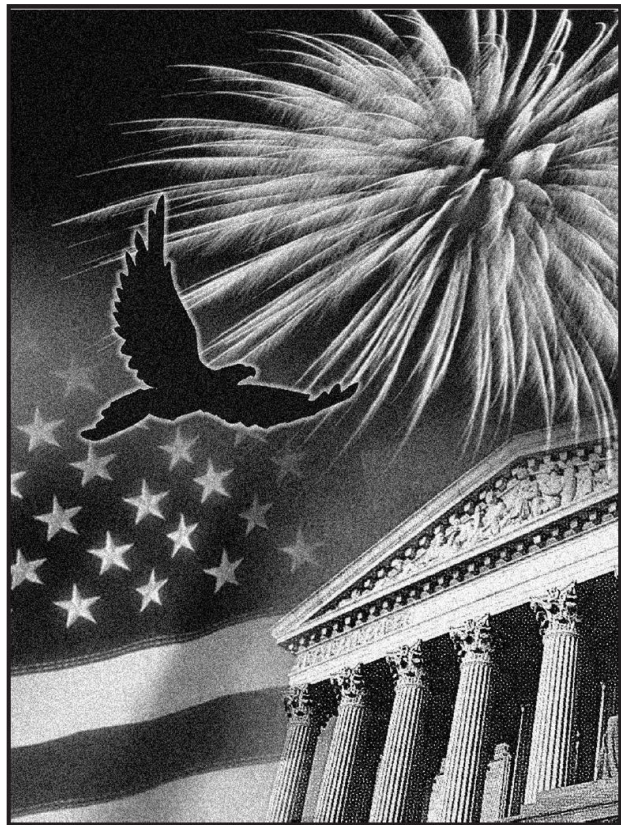
# Publication 936

## Home Mortgage Interest Deduction

For use in preparing

**2024** Returns

Volume 1 of 2



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## Reminders

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

**Home equity loan interest.** No matter when the indebtedness was incurred, you can no longer 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.

**Home mortgage interest.** You can deduct home mortgage interest on the first \$750,000 (\$375,000 if married filing separately) of indebtedness. However, higher limitations (\$1 million (\$500,000 if married filing separately)) apply if you are deducting mortgage interest from indebtedness incurred before December 16, 2017.

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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 discusses the rules for deducting home mortgage interest.

*Part I* contains general information on home mortgage interest, including points. It also explains how to report deductible interest on your tax return.

*Part II* explains how your deduction for home mortgage interest may be limited. It contains Table 1, which is a worksheet you can use to figure the limit on your deduction.

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## **Useful Items**

You may want to see:

### **Publication**

- ☐ **504** Divorced or Separated Individuals
- ☐ **523** Selling Your Home
- ☐ **527** Residential Rental Property



## □ **530** Tax Information for Homeowners

See *How To Get Tax Help* at the end of this publication for information about getting these publications.

# **Part I. Home Mortgage Interest**

This part explains what you can deduct as home mortgage interest. It includes discussions on points and how to report deductible interest on your tax return.

Generally, home mortgage interest is any interest you pay on a loan secured by your home (main home or a second home). The loan may be a mortgage to buy your home, or a second mortgage.

You can't deduct home mortgage interest unless the following conditions are met.

- You file Form 1040 or 1040-SR and itemize deductions on Schedule A (Form 1040).
- The mortgage is a secured debt on a qualified home in which you have an ownership interest. Secured Debt and Qualified Home are explained later.

Both you and the lender must intend that the loan be repaid.

**Note.** Interest on home equity loans and lines of credit are deductible only if the borrowed funds are used to buy, build, or substantially improve the taxpayer's home that secures the loan. The loan must be secured by the taxpayer's main home or second home (qualified residence), and meet other requirements.

**Fully deductible interest.** In most cases, you can deduct all of your home mortgage interest.

How much you can deduct depends on the date of the mortgage, the amount of the mortgage, and how you use the mortgage proceeds.

If all of your mortgages fit into one or more of the following three categories at all times during the year, you can deduct all of the interest on those mortgages. (If any one mortgage fits into more than one category, add the debt that fits in each category to your other debt in the same category.) If one or more of your mortgages doesn't fit into any of these categories, use Part II of this publication to figure the amount of interest you can deduct.

The three categories are as follows.

1. Mortgages you took out on or before October 13, 1987 (called grandfathered debt).

2. Mortgages you (or your spouse if married filing a joint return) took out after October 13, 1987, and prior to December 16, 2017 (see binding contract exception below), to buy, build, or substantially improve your home (called home acquisition debt), but only if throughout 2024 these mortgages plus any grandfathered debt totaled \$1 million or less (\$500,000 or less if married filing separately).

***Exception.*** A taxpayer who enters into a written binding contract before December 15, 2017, to close on the purchase of a principal residence before January 1, 2018, and who purchases such residence before April 1, 2018, is considered to have incurred the home acquisition debt prior to December 16, 2017.

3. Mortgages you (or your spouse if married filing a joint return) took out

after December 15, 2017, to buy, build, or substantially improve your home (called home acquisition debt), but only if throughout 2024 these mortgages plus any grandfathered debt totaled \$750,000 or less (\$375,000 or less if married filing separately).

The dollar limits for the second and third categories apply to the combined mortgages on your main home and second home.

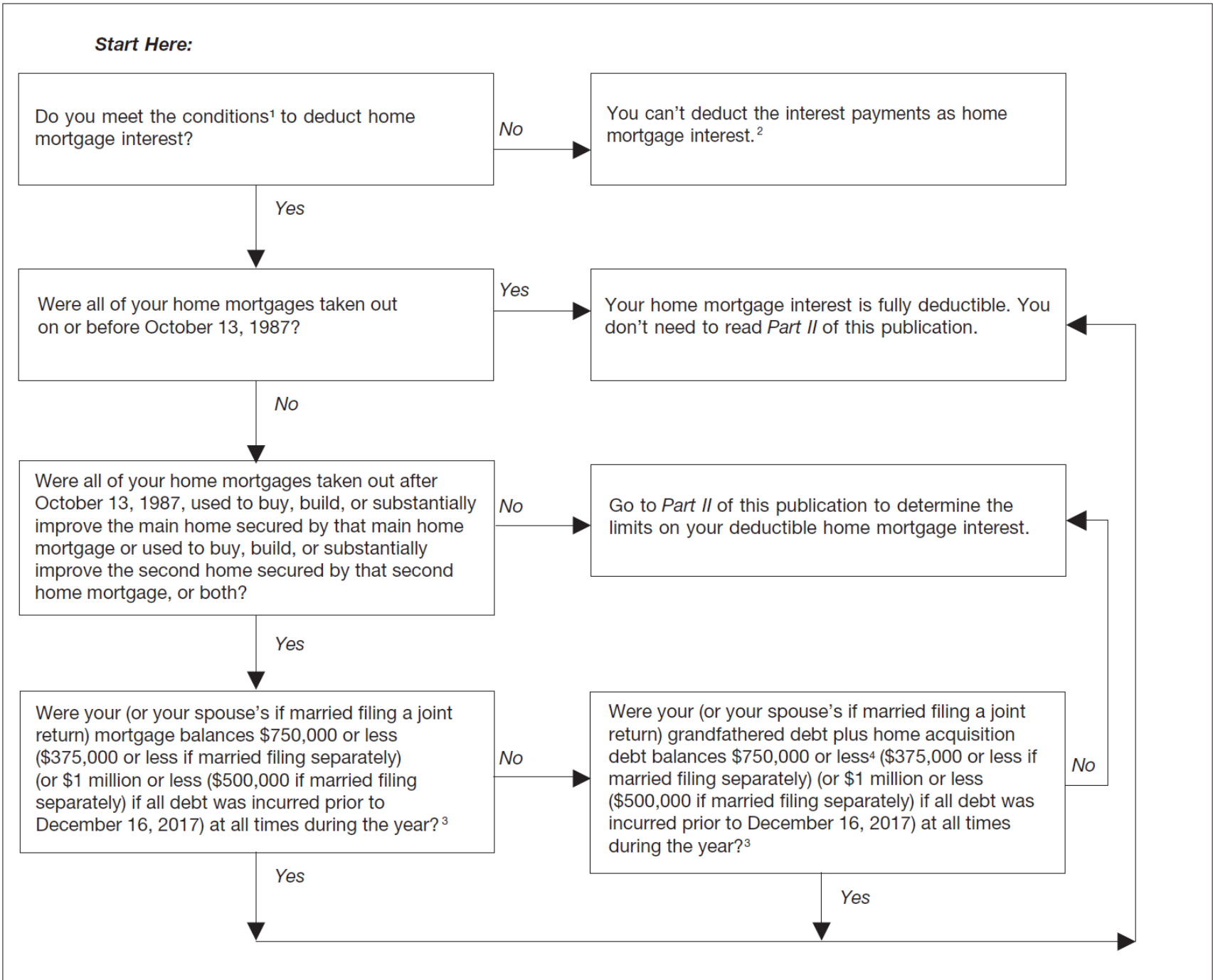
See *Part II* for more detailed definitions of grandfathered debt and home acquisition debt.

You can use Figure A to check whether your home mortgage interest is fully deductible.

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Figure A. Is My Home Mortgage Interest Fully Deductible?

(Instructions: Include balances of ALL mortgages secured by your main home and second home.)



<sup>1</sup> You must itemize deductions on Schedule A (Form 1040). The loan must be a secured debt on a qualified home. See *Part I, Home Mortgage Interest*, earlier.

<sup>2</sup> See Table 2 in *Part II* of this publication for where to deduct other types of interest payments.

<sup>3</sup> A taxpayer who enters into a written binding contract before December 15, 2017, to close on the purchase of a principal residence before January 1, 2018, and who purchases such residence before April 1, 2018, is considered to have incurred the home acquisition debt prior to December 16, 2017, and may use the 2017 threshold amounts of \$1,000,000 (\$500,000 for married filing separately).

<sup>4</sup> See *Part II* of this publication for more information about grandfathered debt and home acquisition debt.

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## **Secured Debt**

You can deduct your home mortgage interest only if your mortgage is a secured debt.

A secured debt is one in which you sign an instrument (such as a mortgage, deed of trust, or land contract) that:

- Makes your ownership in a qualified home security for payment of the debt;
- Provides, in case of default, that your home could satisfy the debt; and
- Is recorded or is otherwise perfected under any state or local law that applies.

In other words, your mortgage is a secured debt if you put your home up as collateral to protect the interests of the lender. If you can't pay the debt, your home can then serve as payment to the lender to satisfy (pay) the debt. In this publication, mortgage will refer to secured debt.

**Debt not secured by home.** A debt isn't secured by your home if it is secured solely because of a lien on your general assets or if it is a security interest that attaches to the property without your consent (such as a mechanic's lien or judgment lien).

A debt isn't secured by your home if it once was, but is no longer, secured by your home.

***Wraparound mortgage.*** This isn't a secured debt unless it is recorded or otherwise perfected under state law.

***Example.*** Ari owns a home subject to a mortgage of \$40,000. Ari sells the home for \$100,000 to Palmer, who takes it subject to the \$40,000 mortgage. Ari continues to make the payments on the \$40,000 note. Palmer pays \$10,000 down and gives Ari a \$90,000 note secured by a wraparound mortgage on the home. Ari doesn't record or otherwise perfect the \$90,000 mortgage under the state law that applies. Therefore, the mortgage

isn't a secured debt and Palmer can't deduct any of the interest paid on it as home mortgage interest.

**Choice to treat the debt as not secured by your home.** You can choose to treat any debt secured by your qualified home as not secured by the home. This treatment begins with the tax year for which you make the choice and continues for all later tax years. You can revoke your choice only with the consent of the IRS.

You may want to treat a debt as not secured by your home if the interest on that debt is fully deductible (for example, as a business expense) whether or not it qualifies as home mortgage interest. This may allow you, if the limits in *Part II* apply, more of a deduction for interest on other debts that are deductible only as home mortgage interest.

**Cooperative apartment owner.** If you own stock in a cooperative housing corporation, see the *Special Rule for Tenant-Stockholders in Cooperative Housing Corporations* near the end of this *Part I*.

## **Qualified Home**

For you to take a home mortgage interest deduction, your debt must be secured by a 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.

The interest you pay on a mortgage on a home other than your main or second home may be deductible if the proceeds of the loan were used for business, investment, or other deductible purposes. Otherwise, it is considered personal interest and isn't deductible.

**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.** A second home is a home that you choose to treat as your second home.

***Second home not rented out.*** If you have a second home that you don't hold out for rent or resale to others at any time during the year, you can treat it as a qualified home. You don't have to use the home during the year.

***Second home rented out.*** If you have a second home and rent it out part of the year, you must also use it as a home during the year for it to be a qualified home. You must use this home more than 14 days or more than 10% of the number of days during the year that the home is rented at a fair rental, whichever is longer.

If you don't use the home long enough, it is considered rental property and not a second home. For information on residential rental property, see Pub. 527.

***More than one second home.*** If you have more than one second home, you can treat only one as the qualified second home during any year. However, you can change the home you treat as a second home during the year in the following situations.

- If you get a new home during the year, you can choose to treat the new home as your second home as of the day you buy it.
- If your main home no longer qualifies as your main home, you can choose to treat it as your second home as of the day you stop using it as your main home.

- If your second home is sold during the year or becomes your main home, you can choose a new second home as of the day you sell the old one or begin using it as your main home.

**Divided use of your home.** The only part of your home that is considered a qualified home is the part you use for residential living. If you use part of your home for other than residential living, such as a home office, you must allocate the use of your home. You must then divide both the cost and fair market value of your home between the part that is a qualified home and the part that isn't. Dividing the cost may affect the amount of your home acquisition debt, which is limited to the cost of your home plus the cost of any improvements. (See *Home Acquisition Debt* in *Part II*, later.)

***Renting out part of home.*** If you rent out part of a qualified home to another person (tenant), you can treat the rented part as being used by you for residential living only if all of the following conditions apply.

- The rented part of your home is used by the tenant primarily for residential living.
- The rented part of your home isn't a self-contained residential unit having separate sleeping, cooking, and toilet facilities.
- You don't rent (directly or by sublease) the same or different parts of your home to more than two tenants at any time during the tax year. If two persons (and dependents of either) share the same sleeping quarters, they are treated as one tenant.

***Office in home.*** If you have an office in your home that you use in your business, see Pub. 587, Business Use of Your Home.



It explains how to figure your deduction for the business use of your home, which includes the business part of your home mortgage interest.

**Home under construction.** You can treat a home under construction as a qualified home for a period of up to 24 months, but only if it becomes your qualified home at the time it is ready for occupancy.

The 24-month period can start any time on or after the day construction begins.

**Home destroyed.** You may be able to continue treating your home as a qualified home even after it is destroyed in a fire, storm, tornado, earthquake, or other casualty. This means you can continue to deduct the interest you pay on your home mortgage, subject to the limits described in this publication.

You can continue treating a destroyed home as a qualified home if, within a reasonable period of time after the home is destroyed, you:

- Rebuild the destroyed home and move into it, or
- Sell the land on which the home was located.

This rule applies to your main home and to a second home that you treat as a qualified home.

**Time-sharing arrangements.** You can treat a home you own under a time-sharing plan as a qualified home if it meets all the requirements. A time-sharing plan is an arrangement between two or more people that limits each person's interest in the home or right to use it to a certain part of the year.

***Rental of time-share.*** If you rent out your time-share, it qualifies as a second home only if you also use it as a home during the year. See *Second home rented out*, earlier, for the use requirement. To know whether you meet that requirement, count your days of use and rental of the home only during the time you have a right to use it or to receive any benefits from the rental of it.

**Married taxpayers.** If you're married and file a joint return, your qualified home(s) can be owned either jointly or by only one spouse.

***Separate returns.*** If you're married filing separately and you and your spouse own more than one home, you can each take into account only one home as a qualified home. However, if you both consent in writing, then one spouse can take both the main home and a second home into account.

## Special Situations

This section describes certain items that can be included as home mortgage interest and others that can't. It also describes certain special situations that may affect your deduction.

**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 performed 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.

**Sale of home.** If you sell your home, you can deduct your home mortgage interest (subject to any limits that apply) paid up to, but not including, the date of the sale.

**Example.** Sasha and Harper Smith sold their home on May 7. Through April 30, they made home mortgage interest payments of \$1,220. The settlement sheet for the sale of the home showed \$50 interest for the 6-day period in May up to, but not including, the date of sale. Their mortgage interest deduction is \$1,270 (\$1,220 + \$50).

**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. You can deduct in each year only the interest that qualifies as home mortgage interest for that year. However, there is an exception that applies to points, discussed later.

**Mortgage interest credit.** You may be able to claim a mortgage interest credit if you were issued a mortgage credit certificate (MCC) by a state or local government. Figure the credit on Form 8396, Mortgage Interest Credit. If you take this credit, you must reduce your mortgage interest deduction by the amount of the credit.

See Form 8396 and Pub. 530 for more information on the mortgage interest credit.

### **Ministers' and military housing allowance.**

If you're a minister or a member of the uniformed services and receive a housing allowance that isn't taxable, you can still deduct your home mortgage interest. For more information, see Pub. 3 (military) or Pub. 517 (ministers).

## **Mortgage assistance payments under section 235 of the National Housing Act.**

If you qualify for mortgage assistance payments for lower-income families under section 235 of the National Housing Act, part or all of the interest on your mortgage may be paid for you. You can't deduct the interest that is paid for you.

***No other effect on taxes.*** Don't include these mortgage assistance payments in your income. Also, don't use these payments to reduce other deductions, such as real estate taxes.

**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.

See sections on *State and Local Real Estate Taxes* and *Home Mortgage Interest*, in Pub. 530, 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* in Pub. 530. If you received HAF funds from an Indian Tribal Government or an Alaska Native Corporation and wish more details about the HAF program, see [FAQs for Payments by Indian Tribal Governments and Alaska Native Corporations to Individuals Under COVID-Relief Legislation.](#)



**Divorced or separated individuals.** If a qualified pre-2019 divorce or separation agreement requires you to pay home mortgage interest on a home owned by your spouse or former spouse or by both of you, the payment of interest may be alimony. See the discussion of *Payments for jointly owned home* under *Alimony* in Pub. 504, Divorced or Separated Individuals.

**Redeemable ground rents.** In some states (such as Maryland), you can 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're leasing (rather than buying) the land on which your home is located.

If you make annual or periodic rental payments on a redeemable ground rent, you can deduct them as mortgage interest.

A ground rent is a redeemable ground rent 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 specific amount.
- The lessor's interest in the land is primarily a security interest to protect the rental payments to which they're entitled.

Payments made to end the lease and to buy the lessor's entire interest in the land aren't deductible as mortgage interest.

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

**Reverse mortgages.** A reverse mortgage is a loan where the lender pays you (in a lump sum, a monthly advance, a line of credit, or a combination of all three) while you continue to live in your home. With a reverse mortgage, you retain title to your home. Depending on the plan, your reverse mortgage becomes due, with interest, when you move, sell your home, reach the end of a pre-selected loan period, or die. Because reverse mortgages are considered loan advances and not income, the amount you receive isn't taxable. Generally, any interest (including original issue discount) accrued on a reverse mortgage is considered interest on home equity debt and isn't deductible.

**Rental payments.** If you live in a house before final settlement on the purchase, any payments you make for that period are rent and not interest. This is true even if the settlement papers call them interest.

You can't deduct these payments as home mortgage interest.

**Mortgage proceeds invested in tax-exempt securities.** You can't deduct the home mortgage interest on grandfathered debt if you used the proceeds of the mortgage to buy securities or certificates that produce tax-free income. "Grandfathered debt" is defined in Part II of this publication.

**Refunds of interest.** If you receive a refund of interest in the same tax year you paid it, you must reduce your interest expense by the amount refunded to you. If you receive a refund of interest you deducted in an earlier year, you must generally include the refund in income in the year you receive it. However, you need to include it only up to the amount of the deduction that reduced your tax in the earlier year. This is true whether the interest overcharge was refunded to you or was used to reduce the outstanding principal on your mortgage.

If you need to include the refund in income, report it on Schedule 1 (Form 1040), line 8z.

If you received a refund of interest you overpaid in an earlier year, you will generally receive a Form 1098, Mortgage Interest Statement, showing the refund in box 4. For information about Form 1098, see Form 1098, Mortgage Interest Statement, later.

For more information on how to treat refunds of interest deducted in earlier years, see *Recoveries* in Pub. 525, Taxable and Nontaxable Income.

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

# 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 generally can't deduct the full amount of points in the year paid. Because they are prepaid interest, you generally deduct them ratably over the life (term) of the mortgage. See Deduction Allowed Ratably next. If the loan is a home equity, line of credit, or credit card loan and the proceeds from the loan are not used to buy, build, or substantially improve the home, the points are not deductible.

For exceptions to the general rule, see *Deduction Allowed in Year Paid*, later.

## **Deduction Allowed Ratably**

If you don't meet the tests listed under *Deduction Allowed in Year Paid*, later, the loan isn't a home improvement loan, or you choose not to deduct your points in full in the year paid, you can deduct the points ratably (equally) over the life of the loan if you meet all of the following tests.

1. 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.
2. Your loan is secured by a home. (The home doesn't need to be your main home.)
3. Your loan period isn't more than 30 years.

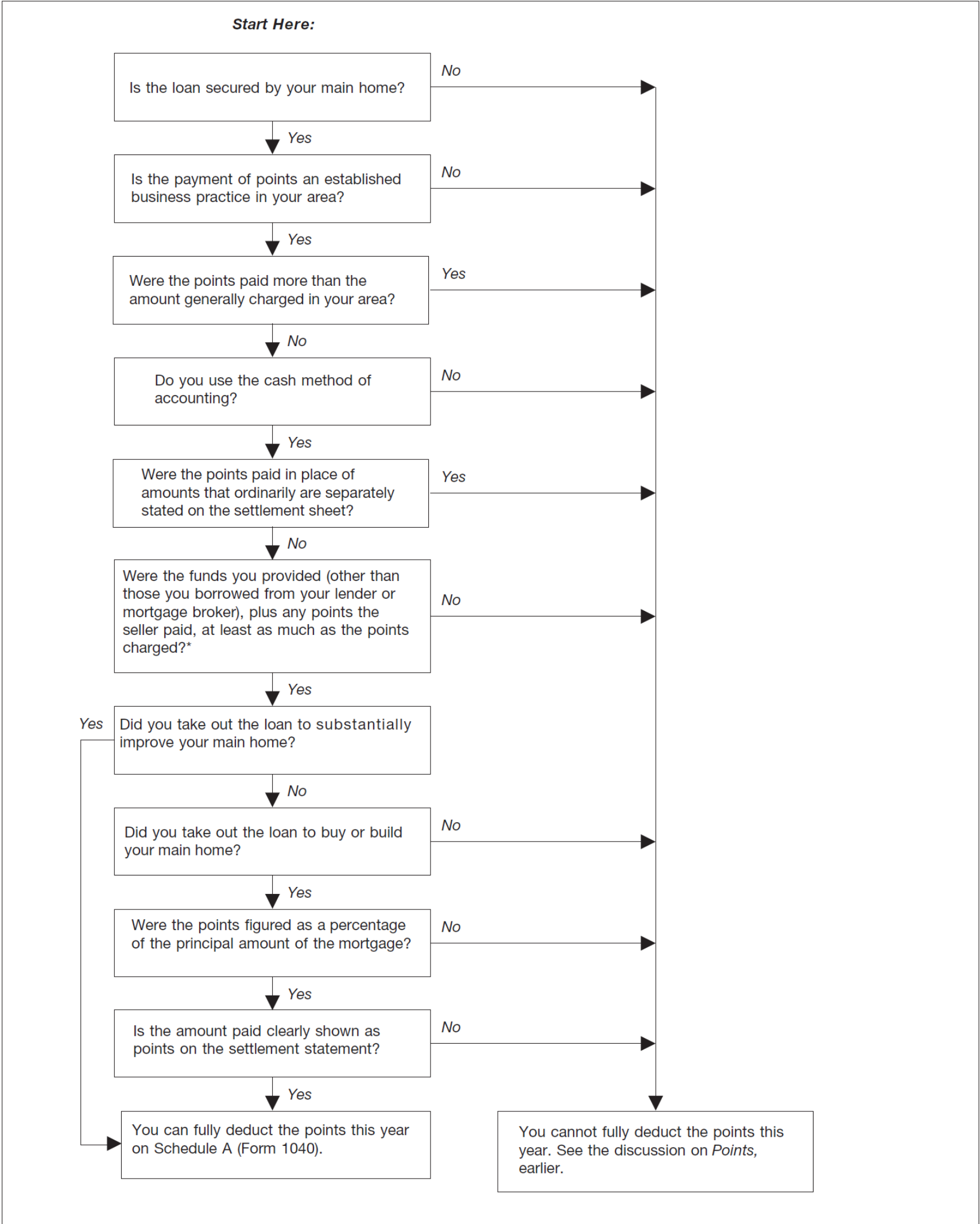
4. If your loan period is more than 10 years, the terms of your loan are the same as other loans offered in your area for the same or longer period.

\* 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.

5. Either the initial principal amount of your loan was \$250,000 or less, or the number of points isn't more than:
  - a. 4, if your loan period is 15 years or less; or
  - b. 6, if your loan period is more than 15 years.



Figure B. **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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**Example.** You use the cash method of accounting. In 2024, you took out a \$100,000 home mortgage loan payable over 20 years. The terms of the loan are the same as for other 20-year loans offered in your area.

You paid \$4,800 in points. You made 3 monthly payments on the loan in 2024. You can deduct \$60  $[(\$4,800 \div 240 \text{ months}) \times 3 \text{ payments}]$  in 2024. In 2025, if you make all twelve payments, you will be able to deduct \$240  $(\$20 \times 12)$ .

### **Deduction Allowed in Year Paid**

You can fully deduct points in the year paid if you meet all the following tests. (You can use Figure B as a quick guide to see whether your points are fully deductible in the year paid.)

1. Your loan is secured by your main home. (Your main home is the one you ordinarily 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 from your lender or mortgage broker.

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 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.
- 10.

**Note.** If you meet all of these tests, you can choose to either fully deduct the points in the year paid, or deduct them over the life of the loan.

**Home improvement loan.** You can also fully deduct in the year paid points paid on a loan to substantially improve your main home if tests 1 through 6 are met.



***Second home.*** *You can't fully deduct in the year paid points you pay on loans secured by your second home. You can deduct these points only over the life of the loan.*

**Refinancing.** Generally, points you pay to refinance a mortgage aren't deductible in full in the year you pay them. This is true even if the new mortgage is secured by your main home.

However, if you use part of the refinanced mortgage proceeds to substantially improve your main home and you meet the first six

tests listed under *Deduction Allowed in Year Paid*, 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.

**Example 1.** In 1999, you got a mortgage to buy a home. In 2024, you refinanced that mortgage with a 15-year \$100,000 mortgage loan. The mortgage is secured by your home. To get the new loan, you had to pay three points (\$3,000). Two points (\$2,000) were for prepaid interest, and one point (\$1,000) was charged for services, in place of amounts that are ordinarily stated separately on the settlement statement. You paid the points out of your private funds, rather than out of the proceeds of the new loan. The payment of points is an established practice in the area, and the points charged aren't more than the amount generally charged there. Your first payment on the new loan was due July 1.

You made six payments on the loan in 2024 and are a cash basis taxpayer.

You used the funds from the new mortgage to repay your existing mortgage. Although the new mortgage loan was for your continued ownership of your main home, it wasn't for the purchase or substantial improvement of that home. You can't deduct all of the points in 2024. You can deduct two points (\$2,000) ratably over the life of the loan. You deduct \$67  $[(\$2,000 \div 180 \text{ months}) \times 6 \text{ payments}]$  of the points in 2024. The other point (\$1,000) was a fee for services and isn't deductible.

**Example 2.** The facts are the same as in *Example 1*, except that you used \$25,000 of the loan proceeds to substantially improve your home and \$75,000 to repay your existing mortgage. You deduct 25%  $(\$25,000 \div \$100,000)$  of the points (\$2,000) in 2024. Your deduction is \$500  $(\$2,000 \times 25\% (0.25))$ .



You also deduct the ratable part of the remaining \$1,500 ( $\$2,000 - \$500$ ) that must be spread over the life of the loan. This is \$50  $[(\$1,500 \div 180 \text{ months}) \times 6 \text{ payments}]$  in 2024. The total amount you deduct in 2024 is \$550 ( $\$500 + \$50$ ).

## **Special Situations**

This section describes certain special situations that may affect your deduction of points.

**Original issue discount.** If you don't qualify to either deduct the points in the year paid or deduct them ratably over the life of the loan, or if you choose not to use either of these methods, the points reduce the issue price of the loan. This reduction results in original issue discount.

**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,
- Department of Veterans Affairs (VA) funding fees,
- Mortgage insurance premiums,
- Notary fees, and
- Preparation costs for the mortgage note or deed of trust.

You can't deduct these amounts as points either in the year paid or over the life of the mortgage.

**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. But they are a selling expense that reduces the amount realized by the seller. See Pub. 523 for information on selling your home.

***Treatment by buyer.*** The buyer reduces the basis of the home by the amount of the seller-paid points and treats the points as if the buyer had paid them. If all the tests under *Deduction Allowed in Year Paid*, earlier, are met, the buyer can deduct the points in the year paid. If any of those tests aren't met, the buyer deducts the points over the life of the loan.

If you need information about the basis of your home, see Pub. 523 or Pub. 530.

**Funds provided are less than points.** If you meet all the tests in *Deduction Allowed in Year Paid*, earlier, except that the funds you provided were less than the points charged to you (test 6, earlier), 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, except the only funds you provided were a \$750 down payment. Of the \$1,000 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 in *Deduction Allowed in Year Paid*, earlier, except that the points paid were more than generally paid in your area (test 3), you 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. However, if you refinance the mortgage with the same lender, you can't deduct any remaining balance of spread points. Instead, deduct the remaining balance over the term of the new loan.

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

**Example.** You paid \$3,000 in points in 2013 that you had to spread out over the 15-year life of the mortgage. You deduct \$200 points per year. Through 2023, you have deducted \$2,200 of the points.

You prepaid your mortgage in full in 2024. You can deduct the remaining \$800 of points in 2024.

**Limits on deduction.** You can't fully deduct points paid on a mortgage that exceeds the limits discussed in Part II. See the Table 1 Instructions, later, for line 13.

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

# **Form 1098, Mortgage Interest Statement**

If you paid \$600 or more of mortgage interest (including certain points) during the year on any one mortgage, you will generally receive a Form 1098 or a similar statement from the mortgage holder. You will receive the statement if you pay interest to a person (including a financial institution or cooperative housing corporation) in the course of that person's trade or business. A governmental unit is a person for purposes of furnishing the statement.

The statement for each year should be sent to you by January 31 of the following year. A copy of this form will also be sent to the IRS.

The statement will show the total interest you paid during the year, any mortgage insurance premiums you paid, and if you purchased a principal residence during the year, it will also show the points paid during the year,

including seller-paid points, that are deductible as interest to the extent you do not exceed the home acquisition debt limit. See Part II. Limits on Home Mortgage Interest Deduction, later. However, the statement shouldn't show any interest that was paid for you by a government agency.

As a general rule, Form 1098 will include only points that you can fully deduct in the year paid. However, it may report points that you can't deduct, particularly if you are filing married filing separately or have mortgages for multiple properties. You must take care to deduct only those points legally allowable. Additionally, certain points not included on Form 1098 may also be deductible, either in the year paid or over the life of the loan. See the earlier discussion of Points to determine whether you can deduct points not shown on Form 1098.



**Prepaid interest on Form 1098.** If you prepaid interest in 2024 that accrued in full by January 15, 2025, this prepaid interest may be included in box 1 of Form 1098. However, you can't deduct the prepaid amount for January 2025 in 2024. (See *Prepaid interest*, earlier.) You will have to figure the interest that accrued for 2025 and subtract it from the amount in box 1. You will include the interest for January 2025 with other interest you pay for 2025.

**Refunded interest.** If you received a refund of mortgage interest you overpaid in an earlier year, you will generally receive a Form 1098 showing the refund in box 4. See *Refunds of interest*, earlier.

## **How To Report**

Generally, you can deduct the home mortgage interest and points reported to you on Form 1098 on Schedule A (Form 1040), line 8a.

However, any interest showing in box 1 of Form 1098 from a home equity loan, or a line of credit or credit card loan secured by the property, is not deductible if the proceeds were not used to buy, build, or substantially improve a qualified home. If you paid more deductible interest to the financial institution than the amount shown on Form 1098, show the portion of the deductible interest that was omitted from Form 1098 on line 8b. Attach a statement to your paper return explaining the difference and print

“See attached” next to line 8b.

Deduct home mortgage interest that wasn't reported to you on Form 1098 on Schedule A (Form 1040), line 8b. If you paid home mortgage interest to the person from whom you bought your home, show that person's name, address, and taxpayer identification number (TIN) on the dotted lines next to line 8b. The seller must give you this number and you must give the seller your TIN.

A Form W-9, Request for Taxpayer Identification Number and Certification, can be used for this purpose. Failure to meet any of these requirements may result in a \$50 penalty for each failure. The TIN can be either a social security number, an individual taxpayer identification number (issued by the IRS), or an employer identification number (EIN).

If you can take a deduction for points that weren't reported to you on Form 1098, deduct those points on Schedule A (Form 1040), line 8c.

**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 print "See attached" next to the line.

Similarly, if you're the payer of record on a mortgage on which there are other borrowers entitled to a deduction for the interest shown on the Form 1098 you received, deduct only your share of the interest on Schedule A (Form 1040), line 8a. Let each of the other borrowers know what their share is.

**Mortgage proceeds used for business or investment.** If your home mortgage interest deduction is limited under the rules explained in *Part II*, but all or part of the mortgage proceeds were used for business, investment, or other deductible activities, see Table 2 near the end of this publication. It shows where to deduct the part of your excess interest that is for those activities.

The Table 1 Instructions for line 16 in *Part II* explain how to divide the excess interest among the activities for which the mortgage proceeds were used.

## **Special Rule for Tenant-Stockholders in Cooperative Housing Corporations**

A qualified home includes stock in a cooperative housing corporation owned by a tenant-stockholder. This applies only if the tenant-stockholder is entitled to live in the house or apartment because of owning stock in the cooperative.

### **Cooperative housing corporation.**

This is a corporation that meets all of the following conditions.

1. Has only one class of stock outstanding.

2. Has no stockholders other than those that own the stock who can live in a house, apartment, or house trailer owned or leased by the corporation.
3. Has no stockholders who can receive any distribution out of capital other than on a liquidation of the corporation.
4. Meets at least one of the following requirements.
  - a. Receives at least 80% of its gross income for the year in which the mortgage interest is paid or incurred from tenant-stockholders. For this purpose, gross income is all income received during the entire year, including amounts received before the corporation changed to cooperative ownership.

- b. At all times during the year, at least 80% of the total square footage of the corporation's property is used or available for use by the tenant-stockholders for residential or residential-related use.
- c. At least 90% of the corporation's expenditures paid or incurred during the year are for the acquisition, construction, management, maintenance, or care of corporate property for the benefit of the tenant-stockholders.

**Stock used to secure debt.** In some cases, you can't use your cooperative housing stock to secure a debt because of either:

- Restrictions under local or state law, or
- Restrictions in the cooperative agreement (other than restrictions in which the main purpose is to permit the tenant-

stockholder to treat unsecured debt as secured debt).

However, you can treat a debt as secured by the stock to the extent that the proceeds are used to buy the stock under the allocation of interest rules.

**Figuring deductible home mortgage interest.** Generally, if you're a tenant-stockholder, you can deduct payments you make for your share of the interest paid or incurred by the cooperative. The interest must be on a debt to buy, build, change, improve, or maintain the cooperative's housing, or on a debt to buy the land.

Figure your share of this interest by multiplying the total by the following fraction.

Your shares of stock in the cooperative

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The total shares of stock in the cooperative



***Cooperative apartment owner.*** If you own a cooperative apartment, you must reduce your home 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 if 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.

***Limits on deduction.*** To figure how the limits discussed in Part II apply to you, treat your share of the cooperative's debt as debt incurred by you. The cooperative should determine your share of its grandfathered debt, and its home acquisition debt. (Your share of each of these types of debt is equal to the average balance of each debt multiplied by the fraction just given.)

After your share of the average balance of each type of debt is determined, you include it with the average balance of that type of debt secured by your stock.

**Form 1098.** The cooperative should give you a Form 1098 showing your share of the interest. Use the rules in this publication to determine your deductible mortgage interest.

## **Part II. Limits on Home Mortgage Interest Deduction**

This part of the publication discusses the limits on deductible home mortgage interest. These limits apply to your home mortgage interest expense if you have a home mortgage that doesn't fit into any of the three categories listed at the beginning of Part I under *Fully deductible interest*, earlier.

Your home mortgage interest deduction is limited to the interest on the part of your home mortgage debt that isn't more than

your qualified loan limit. This is the part of your home mortgage debt that is grandfathered debt or that isn't more than the limits for home acquisition debt. Table 1 can help you figure your qualified loan limit and your deductible home mortgage interest.

## **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 (your main or second 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 isn't more than the cost of the home plus substantial improvements qualifies as home acquisition debt.

**Home acquisition debt limit.** The total amount you (or your spouse if married filing a joint return) can treat as home acquisition debt on your main home and second home is limited based on when the debt is secured.

- For debt secured after October 13, 1987, and prior to December 16, 2017, the limit is \$1 million (\$500,000 if married filing separately).
- For debt secured after December 15, 2017, the limit is \$750,000 (\$375,000 if married filing separately). However, a taxpayer who entered into a written binding contract before December 15, 2017, to close on the purchase of a principal residence before January 1, 2018, and who purchased such residence before April 1, 2018, is considered to have incurred the home acquisition debt prior to December 16, 2017.

The limits above are reduced (but not below zero) by the amount of your grandfathered debt (discussed later).

**Refinanced home acquisition debt.** Any secured debt you use to refinance home acquisition debt is treated as home acquisition debt. However, the new debt will qualify as home acquisition debt only up to the amount of the balance of the old mortgage principal just before the refinancing. Any additional debt not used to buy, build, or substantially improve a qualified home isn't home acquisition debt.

**Mortgage that qualifies later.** A mortgage that doesn't qualify as home acquisition debt because it doesn't meet all the requirements may qualify at a later time. For example, a debt that you use to buy your home may not qualify as home acquisition debt because it isn't secured by the home.

However, if the debt is later secured by the home, it may qualify as home acquisition debt after that time. Similarly, a debt that you use to buy property may not qualify because the property isn't a qualified home. However, if the property later becomes a qualified home, the debt may qualify after that time.

**Mortgage treated as used to buy, build, or substantially improve home.** A

mortgage secured by a qualified home may be treated as home acquisition debt, even if you don't actually use the proceeds to buy, build, or substantially improve the home. This applies in the following situations.

1. You buy your home within 90 days before or after the date you take out the mortgage. The home acquisition debt is limited to the home's cost, plus the cost of any substantial improvements within the limit described below in (2) or (3). (See *Example 1*, later.)

2. You build or substantially improve your home and take out the mortgage before the work is completed. The home acquisition debt is limited to the amount of the expenses incurred within 24 months before the date of the mortgage.
3. You build or substantially improve your home and take out the mortgage within 90 days after the work is completed. The home acquisition debt is limited to the amount of the expenses incurred within the period beginning 24 months before the work is completed and ending on the date of the mortgage. (See *Example 2*, later.)

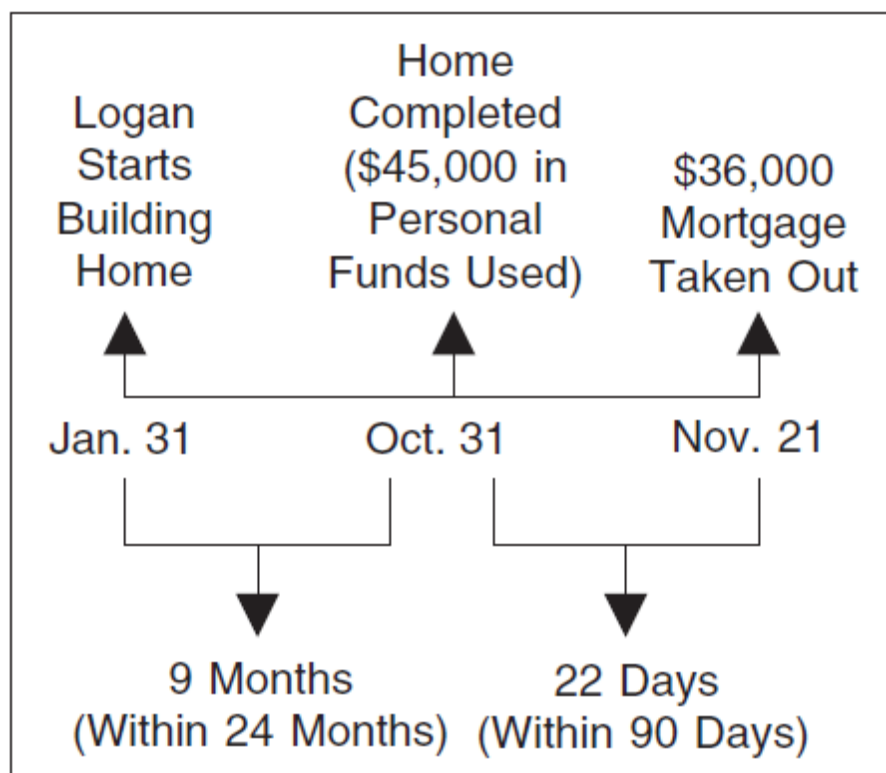
***Example 1.*** You bought your main home on June 3 for \$175,000. You paid for the home with cash you got from the sale of your old home. On July 15, you took out a mortgage of \$150,000 secured by your main home. You used the \$150,000 to invest in stocks.

You can treat the mortgage as taken out to buy your home because you bought the home within 90 days before you took out the mortgage. The entire mortgage qualifies as home acquisition debt because it wasn't more than the home's cost.

**Example 2.** On January 31, Logan began building a home on the lot that Logan owned. Logan used \$45,000 of personal funds to build the home. The home was completed on October 31. On November 21, Logan took out a \$36,000 mortgage that was secured by the home. The mortgage can be treated as used to build the home because it was taken out within 90 days after the home was completed. The entire mortgage qualifies as home acquisition debt because it wasn't more than the expenses incurred within the period beginning 24 months before the home was completed. This is illustrated by Figure C.



**Figure C**



***Date of the mortgage.*** The date you take out your mortgage is the day the loan proceeds are disbursed. This is generally the closing date. You can treat the day you apply in writing for your mortgage as the date you take it out. However, this applies only if you receive the loan proceeds within a reasonable time (such as within 30 days) after your application is approved.

If a timely application you make is rejected, a reasonable additional time will be allowed to make a new application.

**Cost of home or improvements.** To determine your cost, include amounts paid to acquire any interest in a qualified home or to substantially improve the home.

The cost of building or substantially improving a qualified home includes the costs to acquire real property and building materials, fees for architects and design plans, and required building permits.

***Substantial improvement.*** An improvement is substantial if it:

- Adds to the value of your home,
- Prolongs your home's useful life, or
- Adapts your home to new uses.