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 may use to figure the limit on your deduction.

Important Reminders
Personal interest. Personal interest is not deductible. Examples of personal interest include interest charged on credit cards, car loans, and installment plans.

Points paid by seller. You may be able to deduct points paid on your mortgage by the person who sold you your home. See Points in Part I.

Limit on itemized deductions. Certain itemized deductions (including home mortgage interest) are limited if your adjusted gross income is more than $114,700 ($57,350 if you are married filing a separate return). For more information, see the instructions for Schedule A (Form 1040).

Useful Items
You may want to see:

Publication
☐ 527 Residential Rental Property
☐ 530 Tax Information for First-Time Homeowners
☐ 535 Business Expenses

Form (and Instructions)
☐ 8396 Mortgage Interest Credit
Ordering publications and forms. To order free publications and forms, call 1–800–TAX–FORM (1–800–829–3676). If you have access to TDD equipment, you can call 1–800–829–4059. See your tax package for the hours of operation. You can also write to the IRS Forms Distribution Center nearest you. Check your income tax package for the address.

If you have access to a personal computer and a modem, you can get many forms and publications electronically. See How To Get Forms and Publications in your income tax package for details.

Asking tax questions. You can call the IRS with your tax question Monday through Friday during regular business hours. Check your telephone book or your tax package for the local number or you can call 1–800–829–3676 (1–800–829–4059 for TDD users).

Part I: Home Mortgage Interest

This part contains general information on home mortgage interest, including points, and explains 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, a second mortgage, a line of credit, or a home equity loan.

To deduct home mortgage interest, you must file Form 1040 and itemize deductions on Schedule A. Report your deductible home mortgage interest on lines 10–12 of Schedule A.

Fully deductible interest. In most cases, you will be able to deduct all of your home mortgage interest. Whether it is all deductible depends on the date you took out the mortgage, the amount of the mortgage, and your use of its 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 does not fit into any of these categories, use Part II: Limits on Home Mortgage Interest Deduction, later in this publication, to figure the amount of interest you can deduct.

The three categories are:

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

2) Mortgages you took out after October 13, 1987, to buy, build, or improve your home (called home acquisition debt), but only if these mortgages plus any grandfathered debt totaled $1 million or less ($500,000 or less if married filing separately) throughout 1995.

3) Mortgages you took out after October 13, 1987, other than to buy, build, or improve your home (called home equity debt), but only if throughout 1995 these mortgages totaled $100,000 or less ($50,000 or less if married filing separately) and all mortgages on the home totaled no more than its fair market value.

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

Note. You cannot deduct the home mortgage interest in (1) or (3) above if you used the proceeds of the mortgage to purchase securities or certificates that produce tax-free income.

See Part II of this publication for definitions of grandfathered, home acquisition, and home equity debt.

You can use Figure A in this publication to check whether your interest is fully deductible.

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:

1) Makes your ownership in a qualified home security for payment of the debt,

2) Provides, in case of default, that your home could satisfy the debt, and

3) 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 cannot 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 is not 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).

Wraparound mortgage. This is not a secured debt unless it is recorded or otherwise perfected under state law.

Example. Beth owns a home subject to a mortgage of $40,000. She sells the home for $100,000 to John, who takes it subject to the $40,000 mortgage. Beth continues to make the payments on the $40,000 note. John pays $10,000 down and gives Beth a $90,000 note secured by a wraparound mortgage on the home. Beth does not record or otherwise perfect the $90,000 mortgage under applicable state law. Therefore, that mortgage is not a secured debt, and the interest John pays on it is not 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 may revoke your choice only with the consent of the Internal Revenue Service (IRS).

You may want to treat a debt as not secured by your home if the interest on that debt is fully deductible whether or not it qualifies as home mortgage interest debt. This may allow you 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, later.

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, 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 or investment purposes. Otherwise, it is considered personal interest and is not deductible.

Main home. You can have only one main home at any one time. Generally, this is the home where you spend most of your time.

If you sold this home, you could qualify to postpone paying tax on any gain. For information on the sale of your main home, see Publication 523, Selling Your Home.

Second home. If you have a second home that you do not rent to others, you can treat it as a qualified home. This may allow whether you use the home during the year.

However, if you have a second home and rent it out part of the year, you also must use it 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 do not use the home long enough, it is considered rental property and not a second home.

If you have more than one second home, you can treat only one as the qualified second home during any year. However, an exception is made to this rule in the following three situations.

1) 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.

2) 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.

3) 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. You must divide both the cost and fair market value of your home between the part that is a qualified home and the part that is not. 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.) Dividing the fair market value may affect your home equity debt limit, also explained in Part II.

If you have an office in your home that you use in your business, there are special rules. See Publication 587, Business Use of Your Home, for more information.

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 three of the following conditions apply.

1) The rented part of your home is used by the tenant primarily for residential living.
2) The rented part of your home is not a self-contained residential unit having separate sleeping, cooking, and toilet facilities.
3) You do not rent (directly or by sublease) 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.

**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 actually begins.

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

If you rent out your time-share, it qualifies as a
second home only if you also use it as a
home. See Second home, 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.

Married taxpayers. If you are married and file
a joint return, your qualified homes can be
owned either jointly or by only one spouse.
If you are 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 con-
sent 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 cannot. It also describes certain
special situations that may affect your
deduction.

Late payment charge on mortgage pay-
ment. You can deduct as home mortgage in-
terest a late payment charge if it was for a
specific service performed by your mortgage
holder.

Mortgage prepayment penalty. If you pay
off your qualified home mortgage early, you
may have to pay a penalty. You can include
that penalty as home mortgage interest.

Sale of home. If you sell your home, you can
deduct your allowable home mortgage interest
paid up to, but not including, the date of the
sale.

Example. John and Peggy Harris sold
their home on May 7. Through April 30, they
made home mortgage interest payments of
$122. The settlement sheet for the sale of the
home showed $5 interest for the 6–day period
in May up to, but not including, the date of
sale. Their mortgage interest deduction is
$127 ($122 + $5).

Prepaid interest. If you pay interest in ad-
vance 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 de-
duct in each year only the interest that quali-
fies as home mortgage interest for that year.
However, there is an exception. See the dis-
cussion on Points, 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 mort-
gage interest deduction by the amount of the
credit.

See Form 8396 and Publication 530, Tax
Information for First-Time Homeowners, for
more information on the mortgage interest
credit.

Ministers’ and military housing allowance.
If you are a minister or a member of the uni-
formed services and receive a housing allow-
ance that is not taxable, you can still deduct all
of the deductible interest on your home
mortgage.

Shared appreciation mortgage (SAM). Under
a SAM you pay interest at a fixed rate
that is lower than the prevailing interest rate.
You also agree to pay “contingent interest” to
the lender. The contingent interest is a per-
centage of any appreciation in the value of
your home and is due when the SAM ends.
Generally, a SAM will end when you prepay
the SAM, when you sell your home, or on a
specified date, whichever is earliest.

You can deduct the interest included in
your monthly payments at the fixed rate, sub-
ject to any limits that apply, each year as you
pay it. You can deduct the contingent interest,
subject to any limits that apply, in the year you
pay it.

You are not considered to have paid the
contingent interest if you refinance your loan
with the same lender and the face amount of
the new loan includes the contingent interest
due on the SAM. You can deduct the contin-
gent interest only as you pay off the principal
on the new loan. That is, part of the principal in
each payment on the new loan is allocated to
the contingent interest.

Example. In 1987, you bought your main
home for $125,000. You financed the
purchase with a 9% 30–year $100,000 SAM
that provided that you pay the lender 40% of
the appreciation as contingent interest. When
you purchased the house, the prevailing inter-
est rate was 12%. The contingent interest was
due when you paid off the loan, when you sold
your home, or in 10 years, whichever was ear-
liest. In 1995, you sold your home for
$155,000. You paid off the principal on the
mortgage plus $12,000 (40% of the $30,000
appreciation ($155,000 — $125,000)). In
1995, you can deduct the $12,000 contingent
interest as home mortgage interest. The result
would be the same if you had not sold your
house and had paid off the SAM with funds ob-
tained from a source other than the SAM
lender.

Graduated payment mortgages (GPM).
GPMs under section 245 of the National Hous-
ing Act provide that monthly payments in-
crease every year for a number of years and
then stay the same. During the early years,
payments are less than the amount of interest
owed on the loan. The interest that is not paid
becomes part of the principal. Future interest
is figured on the increased unpaid mortgage
loan balance.

Subject to any limits that apply, you can de-
duct the interest you actually paid during the
year if you are a cash method taxpayer. For
example, if the interest owed is $2,551 but
your payment for the year is $2,517, you can
deduct $2,517. Add $34 ($2,551 — $2,517) to
the loan principal.

Mortgage assistance payments. If you qual-
ify for mortgage assistance payments under
section 235 of the National Housing Act, part
or all of the interest on your mortgage may be
paid for you. You cannot deduct the interest
that is paid for you. Do not include these pay-
ments in your income. These payments do not
reduce other deductions, such as taxes.

Divorced or separated individuals. If a di-
 vorce or separation agreement requires you or
your spouse or former spouse to pay home
mortgage interest on a home owned by both of
you, get Publication 504, Divorced or Sepa-
rated Individuals.

Redeemable ground rents. In some states
(Maryland, for example), 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 buy-
ing) the land on which your home is located.
If you make annual or periodic rental pay-
ments on a redeemable ground rent, you can
deduct them as mortgage interest.

A ground rent is a redeemable ground rent if:
1) Your lease, including renewal periods, is
for more than 15 years,
2) You can freely assign the lease,
3) You have a present or future right (under
state or local law) to end the lease and
buy the lessor’s interest in the home, and
4) The lessor’s interest in the land is prima-
arily a security interest to protect the rental
payments to which he or she is entitled.

Payments made to end the lease and to
buy the lessor’s entire interest in the land are
not ground rents. You cannot deduct them.

Nonredeemable ground rent. Payments
on a nonredeemable ground rent are not inter-
est. You can deduct them as rent if they are a
business expense or if they are for rental prop-
erty held to produce income.

Reverse mortgage loans. A reverse mort-
gage loan is a loan that is based on the value
of your home and is secured by a mortgage on
your home. The lending institution pays you
the loan in installments over a period of
months or years. The loan agreement may
provide that interest will be added to the out-
standing loan balance monthly as it accrues.
If you are a cash method taxpayer, you deduct
the interest on a reverse mortgage loan when
you actually pay it, not when it is added to the
outstanding loan balance.

Refunds of interest. If you receive a refund
of interest in the same 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 generally must 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.

If you received a refund of interest you overpaid in an earlier year, you generally will receive a Form 1098, Mortgage Interest Statement, showing the refund in box 3. For information about Form 1098, see Mortgage Interest Statement, later.

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

Cooperative apartment owner. If you own a cooperative apartment, you must reduce your 1995 mortgage interest deduction by your share of any cash portion of a patronage dividend that is a refund to the cooperative housing corporation of mortgage interest it paid before 1995.

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 cannot deduct the full amount of points in the year paid. Because they are prepaid interest, you must spread the points over the life (term) of the mortgage. Generally, you can deduct an equal portion in each year of the mortgage.

Exception. You can fully deduct in 1995 the amount paid on your loan as points if all the following are true:
1) Your loan is secured by your main home. (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 were not 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) You use your loan to buy or build your main home.
6) The points were computed as a percentage of the principal amount of the mortgage.
7) The points were not paid in place of amounts that ordinarily are stated separately on the settlement statement, such as appraisal fees, inspection fees, title fees, attorney fees, and property taxes.
8) The amount is clearly shown on the settlement statement (for example, Form HUD–1) as points charged for the mortgage. The points may be shown as paid from either your funds or the seller’s.
9) 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 do not have 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 cannot have borrowed these funds from your lender or mortgage broker.

You can also fully deduct in 1995 points paid on a loan to improve your main home, if statements (1) through (4) above are true.

Amounts charged for services. Amounts charged by the lender for specific services connected to the loan are not interest. Examples are appraisal fees, notary fees, and preparation costs for the mortgage note or deed of trust. You cannot deduct these amounts as points under either the General rule or the Exception. For information about the tax treatment of these amounts and other settlement fees and closing costs, get Publication 530, Tax Information for First-Time Homeowners.

However, an amount shown on your settlement statement as points may be deductible under the Exception to the General rule, even if it is for services in connection with your mortgage (whether VA, FHA, or conventional). The services must not be any of the specific services for which a charge ordinarily is stated separately on the settlement statement, as described in test (7) of the Exception. The other tests under the Exception also must be met.

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. The seller cannot deduct these fees as interest. But they are a selling expense that reduces the seller’s amount realized.

The buyer reduces the basis of the home by the amount of the seller-paid points and treats the points as if he or she had paid them. If all the tests under the Exception are met, the buyer deducts the points in the year paid. If any of those tests is not met, the buyer deducts the points over the life of the loan.

If you need information about the basis of your home, get Publication 523, Selling Your Home, or Publication 530.

Funds provided are less than points. If you meet all the tests in the Exception except that the funds you provided were less than the points charged to you, 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 1995, you were charged one point ($1,000). You meet all the tests for deducting points in the Exception, except the only funds you provided were a $750 down payment. Of the $1,000 charged for points, you can deduct $750 in 1995.

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 1995, you can deduct $1,750 ($750 of the amount you were charged plus the $1,000 paid by the seller). 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 the Exception except that the points paid were more than generally paid in your area, your deduction in 1995 is limited to the points generally charged. Any additional amount of points paid is interest paid in advance, and the deduction must be spread over the life of the mortgage.

Second home. The Exception does not apply to points you pay on loans secured by your second home. You can deduct these points only over the life of the loan.

Mortgage ending early. If you spread your deduction for points paid 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. Dan refinanced his mortgage in 1990 and paid $3,000 in points that he had to spread out over the life of the mortgage. He had deducted $1,000 of these points through 1994.

Dan prepaid his mortgage in full in 1995. He can deduct the remaining $2,000 of points in 1995.

Refinancing. Generally, points you pay to refinance a mortgage are not 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 improve your main home and you meet the first four tests listed under the Exception, earlier, you can fully deduct the part of the points related to the improvement in the year paid. You can deduct the remainder of the points over the life of the loan.

Example 1. In 1989, Bill Fields obtained a mortgage for the purchase of a home. The interest rate on that mortgage loan was 11%. On June 1, 1995, Bill refinanced this mortgage with a 15–year $100,000 mortgage loan that has an interest rate of 8%. The mortgage is secured by his home. To get the new loan, he had to pay three points ($3,000). Two points ($2,000) were for prepaid interest, and one point ($1,000) was for the lender’s services. Bill paid the points out of his 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 do not exceed the amount generally charged there. Bill made six payments on the loan in 1995 and is a cash basis taxpayer.
Bill used the funds from the new mortgage to repay his existing mortgage. Although the new mortgage loan was incurred in connection with Bill’s continued ownership of his main home, it was not for the purchase or improvement of that home. For that reason, Bill does not meet all the tests in the Exception, and he cannot deduct all of the points in 1995. He can deduct two points ($2,000) ratably over the life of the loan. He deducts $67 (($2,000 ÷ 180 months) × 6 payments) of the points on his 1995 return (on line 12, Schedule A). The other point ($1,000) was a fee for services and not deductible.

**Example 2.** The facts are the same as in Example 1, except that Bill used $25,000 of the loan proceeds to improve his home and $75,000 to repay his existing mortgage. Bill deducts 25% ($25,000 ÷ $100,000) of the $2,000 prepaid interest in 1995. His deduction is $500 ($2,000 × 25%).

Additionally, in 1995, Bill deducts the ratable part of the remaining $1,500 ($2,000 – $500) prepaid interest that must be spread over the life of the loan. This is $50 ($1,500 ÷ 180 months) × 6 payments). The total amount deductible in 1995, on line 12, Schedule A, is $550 ($500 + $50).

**Limits on deduction.** You cannot fully deduct paid points on a mortgage that exceeds the limits discussed in Part II. See the Table 1 Instructions for line 10 in Part II.

**Form 1098.** The mortgage interest statement you receive for 1995 should show not only the total interest paid during the year, but also your deductible points. See Mortgage Interest Statement, next.

**Mortgage Interest Statement**

If you paid $600 or more of mortgage interest (including certain points) during the year on any one mortgage, you generally will receive a Form 1098, Mortgage Interest Statement, or a similar statement. 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.

You should receive the statement by January 31, 1996. The mortgage interest information will also be sent to the IRS.

The statement will show the total interest you paid during the year. If you purchased a main home during 1995, it also will show the deductible points paid during the year, including seller-paid points. However, it should not show any interest that was paid for you by a government agency.

**Note.** Form 1098 will not include points paid for:

1) Home improvement loans on your main home,
2) Purchase or home improvement loans on your second home, vacation property, investment property, or trade or business property,
3) Home equity loans and lines of credit, even if secured by your main home,
4) Refinancing loans (except those taken out to refinance certain construction loans), and
5) Amounts that are more than the points generally charged in your area.

However, certain points not included on Form 1098 may be deductible. See the earlier discussion of Points for more information.

**Caution:** If you prepaid interest in 1995 that accrued in full by January 15, 1996, this prepaid interest may be included in box 1 of Form 1098. However, even though the prepaid amount may be included in box 1, you cannot deduct the prepaid amount in 1995. (See Prepaid interest, earlier.) You will have to figure the interest that accrued for 1996 and subtract it from the amount in box 1. You will include the interest for 1996 with other interest you pay for 1996.

**Refunded interest.** If you received a refund of interest you overpaid in an earlier year, you generally will receive a Form 1098 showing the refund in box 3. See Refunds of interest, earlier.

How To Report

Deduct the interest and points reported to you on Form 1098 on line 10, Schedule A (Form 1040). If you paid more deductible interest to the financial institution than the amount shown on Form 1098, show the larger deductible amount on line 10. Attach a statement explaining the difference and write “See attached” next to line 10.

**Deduct home mortgage interest that was not reported to you on Form 1098 on line 11 of Schedule A (Form 1040).** 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 11. The seller must give you this number and you must give the seller your SSN. Failure to meet any of these requirements may result in a $50 penalty for each failure.

Deduct points paid on a mortgage that were not reported to you on Form 1098 on line 12 of Schedule A (Form 1040).

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 or investment activities, see Table 2, at the end of this publication. It shows where to deduct the part of your excess interest that is allocable to those activities. The instructions in Part II for line 13 of Table 1 explain how to allocate the excess interest among the activities for which the mortgage proceeds were used.

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 1995, attach a statement to your 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 line 11, Schedule A, and write “See attached” next to line 11.

Similarly, if you are 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 line 10, Schedule A. You should furnish the other borrowers with information about their shares of the amounts shown on the form you received.

**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) The corporation has only one class of stock outstanding.
2) Each of the stockholders, 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, and
4) The tenant-stockholders must pay at least 80% of the corporation’s gross income for the tax year. For this purpose, gross income means all income received during the entire tax year, including any received before the corporation changed to cooperative ownership.

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

1) Restrictions under local or state law, or
2) 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. See Chapter 8 of Publication 535 for details on these rules.
Figuring deductible home mortgage interest. Generally, any interest of the cooperative that is allowed as a deduction to a tenant-stockholder under the Internal Revenue Code is treated as interest paid or accrued by the tenant-stockholder.

If any amount is treated as interest paid or accrued by you, the tenant-stockholder, treat your share of the cooperative’s debt as debt incurred by you. The cooperative should determine your share of its grandfathered debt, its home acquisition debt, and its home equity debt. Your share of each of these types of debt is equal to the average balance of each debt multiplied by the following fraction.

Your shares of stock in the cooperative

The total shares of stock in the cooperative

In determining the cooperative’s home acquisition debt, a debt taken out to buy, build, or improve any nonresidential part of the property does not qualify. Also, in determining the fair market value of the residential property, the fair market value of any nonresidential part does not qualify.

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

Figure your home mortgage interest by multiplying the cooperative’s deductible interest by the same fraction. The cooperative should provide you a Form 1098 showing your share of the interest. Use the rules in this publication to determine your deductible mortgage interest.

Example. Jeanne owns 20 shares in a cooperative, in which the total shares are 2,000. The cooperative took out a debt on January 1, 1995, with a principal balance of $2 million. The cooperative made no principal payments in 1995, but it did pay $200,000 interest on the debt.

By the end of 1995, the cooperative used the debt proceeds in the following manner.

1) $500,000 to install a swimming pool for the use of all the residents.

2) $1.4 million to make improvements to commercial space rented to tenants.

3) $100,000 for maintenance costs.

The amount of the cooperative’s home acquisition debt is $500,000. Jeanne’s share is $5,000 ($500,000 × (20/2,000)).

The amount of the cooperative’s home equity debt is $1.5 million ($1.4 million + $100,000). Jeanne’s share is $15,000 ($1.5 million × (20/2,000)).

Jeanne is treated as having paid $2,000 of interest during 1995 on the cooperative’s debt ($200,000 × (20/2,000)).

Jeanne also took out a home acquisition debt to buy her shares in the cooperative. Her average balance for 1995 was $40,000.

Jeanne’s home acquisition debt ($5,000 + $40,000 = $45,000) totaled less than $1 million (the dollar limit that applies to these mortgages) and her home equity debt ($15,000) is less than $100,000 (the dollar limit that applies to these mortgages). All of her home mortgage interest is deductible.

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 does not fit into any of the three categories listed at the beginning of Part I, under Fully deductible interest.

Your home mortgage interest deduction is limited to the interest on the part of your home mortgage debt that is not more than your qualified loan limit. This is the part of your home mortgage debt that is grandfathered debt or that is not more than the limits for home acquisition debt and home equity debt. You may use Table 1, later, to 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 also must be secured by that home.

A debt that does not qualify as home acquisition debt because it does not 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 is not 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 is not a qualified home. However, if the property later becomes a qualified home, the debt may qualify after that time.

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. The additional debt may qualify as home equity debt (discussed later).

Home acquisition debt limit. The total home acquisition debt you can have at any time on your main home and second home cannot be more than $1 million ($500,000 if married filing separately). However, this limit is reduced (but not below zero) by the amount of your grandfathered debt (discussed later). Debt over this limit may qualify as home equity debt (also 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 is not home acquisition debt, but may qualify as home equity debt (discussed later).

Mortgage treated as used to buy, build, or improve home. A mortgage secured by a qualified home may be treated as home acquisition debt, even if you do not actually use the proceeds to buy, build, or substantially improve the home, 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).

2) You build or 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 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.

Example 1. You bought your main home on June 3, 1995, for $175,000. You paid for the home with cash you got from the sale of your old home. On July 15, 1995, 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 was not more than the home’s cost.

Example 2. On January 31, 1995, John began building a home on the lot that he owned. He used $45,000 of his personal funds to build the home. The home was completed on October 31, 1995. John took out a mortgage of $36,000, on November 21, 1995, 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 was not more than the expenses incurred within the period beginning 24 months before the home was completed. Figure B illustrates this.
Date of the mortgage. The date you take out your mortgage is the day you receive the loan proceeds, 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 30 days after your application is approved. If an application you make within the 90-day period 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:

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

Repairs that maintain your home in good condition, such as repainting your home, are not substantial improvements. However, if you paint your home as part of a renovation that substantially improves your qualified home, you can include the painting costs in the cost of the improvements.

Acquiring an interest in a home because of a divorce. Cost includes amounts spent to acquire the interest of a spouse or former spouse in a home, because of a divorce or legal separation.

Part of home not a qualified home. To figure your home acquisition debt, you must allocate the cost of your home and improvements between the part of your home that is a qualified home and any part that is not a qualified home. See Divided use of your home under Qualified Home in Part I.

Home Equity Debt

If you took out a loan for reasons other than to buy, build, or substantially improve your home, it may qualify as home equity debt. In addition, debt you incurred to buy, build, or substantially improve your home, to the extent it is more than the home acquisition debt limit, may qualify as home equity debt.

Home equity debt is a mortgage you took out after October 13, 1987. It is a debt, other than grandfathered debt, discussed later, or home acquisition debt, that is secured by your qualified home.

Example. You bought your home for cash in 1980. You did not have a mortgage on your home until 1995, when you took out a $20,000 loan, secured by your home, to pay for your daughter’s college tuition and your father’s medical bills. This loan is home equity debt.

Home equity debt limit. There is a limit on the amount of debt that can be treated as home equity debt. The total debt on your main home and second home is limited to the smaller of:

1) $100,000 ($50,000 if married filing separately), or
2) The total of each home’s fair market value (FMV) reduced (but not below zero) by the amount of its home acquisition debt and grandfathered debt.

Interest on amounts over the home equity debt limit generally is treated as personal interest and is not deductible. But if the proceeds of the loan were used for investment or business purposes, the interest may be deductible. See the instructions for line 13 of Table 1 for an explanation of how to allocate the excess interest.

Part of home not a qualified home. To figure the limit on your home equity debt, you must divide the FMV of your home between the part that is a qualified home and any part that is not a qualified home. See Divided use of your home under Qualified Home in Part I.

Fair market value. This is the price at which the home would change hands between you and a buyer, neither having to sell or buy, and both having reasonable knowledge of all necessary facts. Sales of similar homes in your area, on about the same date your last debt was secured by the home, may be helpful in figuring the FMV.

Grandfathered Debt

If you took out a mortgage on your home before October 14, 1987, or you refinanced such a mortgage, it may qualify as grandfathered debt. To qualify, it must have been secured by your qualified home on October 13, 1987, and at all times after that date. How you used the proceeds does not matter.

Grandfathered debt is not limited. All of the interest you paid on grandfathered debt is fully deductible home mortgage interest. However, the amount of your grandfathered debt reduces the $1 million limit for home acquisition debt and the limit based on your home’s fair market value for home equity debt.

Refinanced grandfathered debt. If you refinanced grandfathered debt after October 13, 1987, for an amount that was not more than the mortgage principal left on the debt, then you still treat it as grandfathered debt. To the extent the new debt is more than that mortgage principal, it is treated as home acquisition or home equity debt, and the mortgage is a mixed-use mortgage (discussed later under Average Mortgage Balance in the Table 1 Instructions). The debt must be secured by the qualified home.

You treat grandfathered debt that was refinanced after October 13, 1987, as grandfathered debt only for the term left on the debt that was refinanced. After that, you treat it as home acquisition debt or home equity debt, depending on how you used the proceeds.

Example. You refinanced your debt in 1990 with a new 20-year mortgage. The refinanced debt is treated as grandfathered debt for its entire term (20 years).

Line-of-credit mortgage. If you had a line-of-credit mortgage on October 13, 1987, and borrowed additional amounts against it after that date, then the additional amounts are either home acquisition debt or home equity debt depending on how you used the proceeds. The balance on the mortgage before you borrowed the additional amounts is grandfathered debt. The newly borrowed amounts are not grandfathered debt because the funds were borrowed after October 13, 1987. See Mixed-use mortgages under Average Mortgage Balance in the Table 1 Instructions, next.

Table 1 Instructions

If ALL of your mortgages secured by your main home or second home are grandfathered debt or, for the entire year, are within the limits discussed earlier under Home Acquisition Debt and Home Equity Debt, you can deduct ALL of the interest. You do not need Table 1. Otherwise, you may use Table 1 to determine your qualified loan limit and deductible home mortgage interest. Fill out only one Table 1, for both your main and second home, regardless of how many mortgages you have.

If all of your mortgages are home equity debt, do not fill in lines 1 through 5. Enter zero on line 6 and complete the rest of the worksheet.

Average Mortgage Balance

You have to figure the average balance of each mortgage to determine your qualified loan limit. You need these amounts to complete lines 1, 2, and 9 of the worksheet. You
Table 1. Worksheet to Figure Your Qualified Loan Limit and Deductible Home Mortgage Interest

(Keep for your records.) See the Table 1 Instructions in this publication.

<table>
<thead>
<tr>
<th>Part I Qualified Loan Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Note:</strong> If you have a mixed-use mortgage, see Mixed-use mortgages under Average Mortgage Balance, before completing lines 1 and 2, below.</td>
</tr>
<tr>
<td><strong>1</strong> Enter the average balance for 1995 of each mortgage you had on all qualified homes on October 13, 1987 (grandfathered debt). See line 1 instructions before going to line 2.</td>
</tr>
<tr>
<td><strong>2</strong> Enter the average balance for 1995 of each mortgage you took out on all qualified homes after October 13, 1987, for home acquisition debt. See line 2 instructions before going to line 3.</td>
</tr>
<tr>
<td><strong>3</strong> Enter $1,000,000 ($500,000 if married filing separately).</td>
</tr>
<tr>
<td><strong>4</strong> Enter the larger of the amount on line 1 or the amount on line 3.</td>
</tr>
<tr>
<td><strong>5</strong> Add the amounts on lines 1 and 2. Enter the total here.</td>
</tr>
<tr>
<td><strong>6</strong> Enter the smaller of the amount on line 4 or the amount on line 5.</td>
</tr>
<tr>
<td><strong>7</strong> Enter $100,000 ($50,000 if married filing separately). See line 7 instructions for a limit that may apply.</td>
</tr>
<tr>
<td><strong>8</strong> Add the amounts on lines 6 and 7. Enter the total. This is your qualified loan limit.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Part II Deductible Home Mortgage Interest</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>9</strong> Enter the total of the average balances for 1995 of all mortgages on all qualified homes. (In figuring the amount to enter here, do not use the Additional computation in the line 2 instructions.)</td>
</tr>
<tr>
<td><strong>10</strong> Enter the total amount of interest that accrued while the debts were secured by your qualified homes and that you paid in 1995. Do not include points on this line. See the instructions for line 10 to find out how to deduct points.</td>
</tr>
<tr>
<td><strong>11</strong> Divide the amount on line 8 by the amount on line 9. Enter the result as a decimal amount (rounded to three places).</td>
</tr>
<tr>
<td><strong>12</strong> Multiply the amount on line 10 by the decimal amount on line 11. Enter the result. This is your deductible home mortgage interest. Enter this amount on Schedule A (Form 1040), line 10 or 11, whichever applies. (If you file Form 1040-T, the interest is deductible on line h or i of Section B.)</td>
</tr>
<tr>
<td><strong>13</strong> Subtract the amount on line 12 from the amount on line 10. Enter the result. This is not home mortgage interest. See the instructions for line 13 to determine whether you can deduct this interest on your tax return and, if so, where.</td>
</tr>
</tbody>
</table>

If the mortgage was secured by your qualified home for only part of 1995, figure your average balance as follows. Multiply the amount on line 4, above, by the number of months in 1995 that the mortgage was secured by your qualified home. Divide the result by 12.

**Interest paid divided by interest rate method.** You can use this method if at all times in 1995 the mortgage was secured by your qualified home and the interest was paid at least monthly. Complete the following worksheet to figure your average balance.

---

**Average of first and last balance method.** You can use this method if all the following apply:

1. You did not borrow any new amounts on the mortgage in 1995. (This does not include borrowing the original mortgage amount.)
2. You did not prepay more than one month’s principal during 1995. (This includes prepayment by refinancing your home or by applying proceeds from its sale.)
3. You had to make level payments at fixed equal intervals on at least a semi-annual basis. You treat your payments as level even if they were adjusted from time to time because of changes in the interest rate.

To figure your average balance, complete the following:

1. Enter the balance as of the first day that the mortgage was secured by your qualified home in 1995 (generally January 1, 1995) ………
2. Enter the balance as of the last day that the mortgage was secured by your qualified home in 1995 (generally December 31, 1995) ………
3. Add amounts on lines 1 and 2 ……
4. Divide the amount on line 3 by 2. Enter the result ………
1. Enter the interest paid in 1995. Do not include points. However, do include other prepaid interest that was due in 1995. Do not include prepaid interest for other years until the year due. \ldots 2) $2,500

2. Enter the annual interest rate on the mortgage. If the interest rate varied in 1995, use the lowest rate for the year \ldots .09

3. Divide the amount on line 1 by the amount on line 2. Enter the result \ldots $27,778

\textbf{Example.} Mr. Blue had a line of credit secured by his main home all of 1995. He paid interest of $2,500 on this loan. The interest rate on the loan was 9% (.09) throughout the year. His average balance using this method is $27,778, figured as follows:

1. Enter the interest paid in 1995. Do not include points. However, do include other prepaid interest that was due in 1995. Do not include prepaid interest for other years until the year due. \ldots $2,500

2. Enter the annual interest rate on the mortgage. If the interest rate varied in 1995, use the lowest rate for the year .09

3. Divide the amount on line 1 by the amount on line 2. Enter the result \ldots $27,778

\textbf{Statements provided by your lender.} If you receive monthly statements showing the closing balance or the average balance for the month, then you can use either to figure your average balance. You can treat the balance as zero for any month the mortgage was not secured by your qualified home.

Figure your average balance by adding your monthly closing or average balances and dividing that total by 12. If your lender can give you your average balance for 1995, you can use that amount.

\textbf{Example.} Ms. Brown had a home equity loan secured by her main home for all of 1995. She received monthly statements showing her average balance for each month. She may figure her average balance for 1995 by adding her monthly average balances and dividing the total by 12.

\textbf{Mixed-use mortgages.} A mixed-use mortgage is a loan that consists of more than one of the three categories of debt (grandfathered debt, home acquisition debt, and home equity debt). For example, a mortgage you took out in 1995 is a mixed-use mortgage if you used its proceeds partly to refinance a mortgage that you took out in 1989 to buy your home (home acquisition debt) and partly to pay your son’s college tuition (home equity debt).

Complete lines 1 and 2 of Table 1 by including the separate average balances of any grandfathered debt and home acquisition debt in your mixed-use mortgage. Do not use the methods described earlier in this section to figure the average balance of either category. Instead, for each category, use the following method:

1) Figure the balance of that category of debt for each month. This is the amount of the loan proceeds allocated to that category, reduced by your principal payments on the mortgage previously applied to that category. Principal payments on a mixed-use mortgage are applied in full to each category of debt, until its balance is zero, in the following order:

\begin{itemize}
  \item First, any home equity debt,
  \item Next, any grandfathered debt, and
  \item Finally, any home acquisition debt.
\end{itemize}

2) Add together the monthly balances figured in (1).

3) Divide the result in (2) by 12.

Complete line 9 of Table 1 by including the average balance of the entire mixed-use mortgage, figured under one of the methods described earlier in this section.

\textbf{Example 1.} In 1986, Sharon took out a $1,400,000 mortgage to purchase her main home (grandfathered debt). In March 1995, when the home had a fair market value of $1,700,000 and she owed $1,100,000 on the mortgage, Sharon took out a second mortgage for $200,000. She used $180,000 of the proceeds to make substantial improvements to her home (home acquisition debt) and the remaining $20,000 to buy a car (home equity debt). Under the loan agreement, Sharon must make principal payments of $1,000 each month. During 1995, her principal payments on the second mortgage totaled $10,000.

To complete line 2 of Table 1, Sharon must figure a separate average balance for the part of her second mortgage that is home acquisition debt. The January and February balances were zero. The March through December balances were all $180,000, because none of her principal payments are applied to the home acquisition debt. (They are all applied to the home equity debt, reducing it to $10,000 ($20,000 $10,000).) The monthly balances of the home acquisition debt total $1,800,000 ($180,000 10). Therefore, the average balance of the home acquisition debt for 1995 was $150,000 ($1,800,000 12).

\textbf{Example 2.} The facts are the same as in Example 1. In 1996, Sharon’s January through October principal payments on her second mortgage are applied to the home equity debt, reducing it to zero. The balance of the home acquisition debt remains $180,000 for each of those months. Because her November and December principal payments are applied to the home acquisition debt, the November balance is $179,000 ($180,000 $1,000) and the December balance is $178,000 ($180,000 $2,000). The monthly balances total $2,157,000 ($180,000 10) $179,000 $178,000. Therefore, the average balance of the home acquisition debt for 1996 is $179,750 ($2,157,000 12).

\textbf{Line 1} Figure the average balance for 1995 of each mortgage you had on a qualified home on October 13, 1987 (grandfathered debt). Add the results together and enter the total on line 1. Include the average balance for 1995 for any grandfathered debt part of a mixed-use mortgage.

\textbf{Line 2} Figure the average balance for 1995 of each mortgage you took out on each qualified home after October 13, 1987, to buy, build, or substantially improve that home (home acquisition debt). Add the results together and enter the total on line 2. Include the average balance for 1995 for any home acquisition debt part of a mixed-use mortgage.

However, you must make an additional computation, described next, to figure the average balance if both conditions below apply.

1) A home was a qualified home only part of the year.

2) The balance of all home acquisition debt on that home was more than $1 million ($500,000 if married filing separately) at any time during the year.

\textbf{Additional computation:}

1) Figure the average balance of all home acquisition debt on the part-year home over the period that home was a qualified home during the year, as follows. Divide the total of the average balances you previously figured by the number of months in 1995 that the home was a qualified home. Multiply the result by 12. If that amount is not more than $1 million ($500,000 if married filing separately), stop here. Disregard this additional computation, and enter on line 2 the total of the average balances you previously figured for home acquisition debt on all qualified homes.

2) If the amount figured in (1) is more than $1 million ($500,000 if married filing separately), multiply the total of the average balances you previously figured for home acquisition debt on the part-year home by a fraction. The numerator of the fraction is $1 million ($500,000 if married filing separately), and the denominator is the amount figured in (1).

3) Add together the amount figured in (2) and the average balances you previously figured for home acquisition debt on any qualified home other than the part-year home. Enter the total on line 2.

Do not use this additional computation when figuring the amount to enter on line 9.

\textbf{Line 7} The amount on line 7 cannot be more than the smaller of:

1) $100,000 ($50,000 if married filing separately), or

2) The total of each home’s fair market value (FMV) reduced (but not below zero) by the amount of its home acquisition debt and grandfathered debt. Determine the FMV and the outstanding home acquisition and grandfathered debt for each home on the date that the last debt was secured by the home.
See Home equity debt limit, earlier, under Home Equity Debt for more information about fair market value.

**Line 9**

Figure the average balance for 1995 of each outstanding home mortgage. Add the average balances together and enter the total on line 9. See Average Mortgage Balance, earlier. **Note:** When figuring the average balance of a mixed-use mortgage, for line 9 determine the average balance of the entire mortgage.

In figuring the average balance to enter on line 9, do not use the Additional computation described in the instructions for line 2.

**Line 10**

If you make payments to a financial institution, or to a person whose business is making loans, you should get Form 1098, Mortgage Interest Statement, or a similar statement from the lender. This form will show the amount of interest to enter on line 10 of the worksheet. Also include on this line any other interest payments made on debts secured by a qualified home for which you did not receive a Form 1098. Do not include points on this line.

Claiming your deductible points. Figure your deductible points as follows.

1) Figure your deductible points for 1995 using the rules explained under Points in Part I.

2) Multiply the amount in item (1) by the decimal amount on line 11 of the worksheet.

**Line 13**

You cannot deduct the amount of interest on line 13 of the worksheet as home mortgage interest. If you did not use any of the proceeds of any mortgage included on line 9 of the worksheet for business or investment activities, then all the interest on line 13 is personal interest. Personal interest is not deductible.

If you did use all or part of any mortgage proceeds for business or investment activities, the part of the interest on line 13 that is allocable to those activities may be deducted as business or investment expense, subject to any limits that apply. **Table 2** at the end of this publication shows where to deduct that interest. See Allocation of Interest in Chapter 8 of Publication 535, Business Expenses, for an explanation of how to determine the use of loan proceeds.

### Table 2. Where to Deduct Your Interest

<table>
<thead>
<tr>
<th>Type of interest</th>
<th>Where to deduct</th>
<th>Where to find information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deductible home mortgage interest and points reported on Form 1098</td>
<td>Schedule A (Form 1040), line 10</td>
<td>Publication 936</td>
</tr>
<tr>
<td>Deductible home mortgage interest <strong>not</strong> reported on Form 1098</td>
<td>Schedule A (Form 1040), line 11</td>
<td>Publication 936</td>
</tr>
<tr>
<td>Points <strong>not</strong> reported on Form 1098</td>
<td>Schedule A (Form 1040), line 12</td>
<td>Publication 936</td>
</tr>
<tr>
<td>Investment interest (other than incurred to produce rents or royalties)</td>
<td>Schedule A (Form 1040), line 13</td>
<td>Publication 550</td>
</tr>
<tr>
<td>Business interest (non-farm)</td>
<td>Schedule C or C-EZ (Form 1040)</td>
<td>Publications 334 and 535</td>
</tr>
<tr>
<td>Farm business interest</td>
<td>Schedule F (Form 1040)</td>
<td>Publications 225 and 535</td>
</tr>
<tr>
<td>Interest incurred to produce rents or royalties</td>
<td>Schedule E (Form 1040)</td>
<td>Publications 527 and 535</td>
</tr>
<tr>
<td>Personal interest</td>
<td>Not deductible</td>
<td></td>
</tr>
</tbody>
</table>

Enter the result on Schedule A (Form 1040), line 10 or 12, whichever applies. (If you file Form 1040-T, enter the result on line h or i of Section B.) This amount is fully deductible.

3) Subtract the amount in item (2) from the amount in item (1). This amount is not deductible as home mortgage interest. However, if you used any of the loan proceeds for business or investment activities, see the instructions for line 13 of the worksheet, next.

The following two rules describe how to allocate the interest on line 13 to a business or investment activity.

1) If you used all of the proceeds of the mortgages on line 9 for one activity, then all the interest on line 13 is allocated to that activity. In this case, deduct the interest on the form or schedule to which it applies.

2) If you used the proceeds of the mortgages on line 9 for more than one activity, then the interest on line 13 is allocated among the activities in any manner you select (up to the total amount of interest allocable to each activity).

You figure the total amount of interest allocable to any activity by multiplying the amount on line 10 of the worksheet by the following fraction.

\[
\frac{\text{Amount on line 9 of the worksheet}}{\text{Total amount on line 9}}
\]

**Example.** Don had two mortgages (A and B) on his main home during all of 1995. Mortgage A had an average balance of $90,000 for 1995, and mortgage B had an average balance of $110,000.

Don determines that the proceeds of mortgage A are allocable to personal expenses for all of 1995. The proceeds of mortgage B are allocable to his business for all of 1995. Don paid $14,000 of interest on mortgage A and $16,000 of interest on mortgage B. He figures the amount of home mortgage interest he can deduct by using **Table 1**. Don determines that $15,000 of the interest can be deducted as home mortgage interest.

The interest Don can allocate to his business is the smaller of:

1) The amount on line 13 of the worksheet ($15,000), or

2) The total amount of interest allocable to the business ($16,500), figured by multiplying the amount on line 10 ($30,000 total interest paid) by the following fraction.

\[
\frac{110,000}{200,000} = 0.55
\]

Because $15,000 is the smaller of items (1) and (2), that is the amount of interest Don can allocate to his business. He deducts this amount on his Schedule C (Form 1040).
Tax Publications for Individual Taxpayers

General Guidelines

1. Your Rights as a Taxpayer
   17. Your Federal Income Tax
      (For Individuals)
   225. Farmer's Tax Guide
   334. Tax Guide for Small Business
   509. Tax Calendar for 1996
   553. Highlights of 1995 Tax Changes
   595. Tax Guide for Commercial Fishermen
   910. Guide to Free Tax Services

Specialized Publications

3. Tax Information for Military Personnel
   (Including Reservists Called to Active Duty)
371. Fuel Tax Credits and Refunds
448. Federal Estate and Gift Taxes
483. Travel, Entertainment, and Gift Expenses
501. Exemptions, Standard Deduction, and Filing Information
502. Medical and Dental Expenses
503. Child and Dependent Care Expenses
504. Divorced or Separated Individuals
505. Tax Withholding and Estimated Tax
506. Educational Expenses
514. Foreign Tax Credit for Individuals
516. Tax Information for U.S. Government Civilian Employees Stationed Abroad
517. Social Security and Other Information for Members of the Clergy and Religious Workers
520. Scholarships and Fellowships
521. Moving Expenses
523. Selling Your Home
524. Credit for the Elderly or the Disabled
525. Taxable and Nontaxable Income
526. Charitable Contributions
527. Residential Rental Property

528. Miscellaneous Deductions
530. Tax Information for First-Time Homeowners
531. Reporting Tip Income
533. Self-Employment Tax
534. Depreciating Property Placed in Service Before 1887
537. Installment Sales
541. Tax Information on Partnerships
544. Sales and Other Dispositions of Assets
547. Nonbusiness Disasters, Casualties, and Thefts
550. Investment Income and Expenses
551. Basis of Assets
552. Recordkeeping for Individuals
554. Tax Information for Older Americans
555. Federal Tax Information on Community Property
566. Examination of Returns, Appeals, Rights, and Claims for Refund
559. Surveys, Executors, and Administrators
560. Retirement Plans for the Self-Employed
561. Determining the Value of Donated Property
564. Mutual Fund Distributions
570. Tax Guide for Individuals With Income From U.S. Possessions
575. Pension and Annuity Income (Including Simplified General Rule)
584. Nonbusiness Disaster, Casualty, and Theft Loss Workbooks
587. Business Use of Your Home (Including Use by Day-Care Providers)
589. Tax Information on S Corporations
590. Individual Retirement Arrangements (IRAs)
593. Tax Highlights for U.S. Citizens and Residents Going Abroad

594. Understanding the Collection Process
596. Earned Income Credit
721. Tax Guide to U.S. Civil Service Retirement Benefits
901. U.S. Tax Treaties
907. Tax highlights for Persons with Disabilities
908. Tax Information on Bankruptcy
911. Tax Information for Direct Sellers
915. Social Security and Equivalent Railroad Retirement Benefits
917. Business Use of a Car
919. Is My Withholding Correct for 1996?
923. Passive Activity and At-Flak Rules
926. Household Employer's Tax Guide
929. Tax Rules for Children and Dependents
936. Home Mortgage Interest Deduction
945. Tax Information for Those Affected by Operation Desert Storm
946. How to Depreciate Property
947. Practice Before the IRS and Power of Attorney
950. Introduction to Estate and Gift Taxes
1542. Per Diem Rates
1544. Reporting Cash Payments of Over $10,000
1546. How to Use the Problem Resolution Program of the IRS

Spanish Language Publications

15P. Derechos del Contribuyente
579SP. Cómo Preparar la Declaración de Impuesto Federal
594SP. Compendiendo el Proceso de Cobro
596SP. Créditos por Ingreso del Trabajo
890. Spanish-English Glossary of Words and Phrases Used in Publications Issued by the Internal Revenue Service

Commonly Used Tax Forms

1040. U.S. Individual Income Tax Return
   Sch A. Itemized Deductions
   Sch B. Interest and Dividend Income
   Sch C. Profit or Loss From Business
   Sch C-EZ. Net Profit From Business
   Sch D. Capital Gains and Losses
   Sch E. Supplemenal Income and Loss
   Sch EIC. Earned Income Credit
   Sch F. Profit or Loss From Farming
   Sch H. Household Employment Taxes
   Sch R. Credit for the Elderly or the Disabled
   Sch SE. Self-Employment Tax

1040EZ. Income Tax Return for Single and Joint Filers With No Dependents

1040A. U.S. Individual Income Tax Return
   Sch 1. Interest and Dividend Income for Form 1040A Filers
   Sch 2. Child and Dependent Care Expenses for Form 1040A Filers
   Sch 3. Credit for the Elderly or the Disabled for Form 1040A Filers

1040-ES. Estimated Tax for Individuals
1040X. Amended U.S. Individual Income Tax Return
2106. Employee Business Expenses
2106-EX. Unreimbursed Employee Business Expenses
2119. Sale of Your Home
2210. Underpayment of Estimated Tax by Individuals, Estates, and Trusts
2441. Child and Dependent Care Expenses
2848. Power of Attorney and Declaration of Representative
3903. Moving Expenses
4562. Depreciation and Amortization

4858. Application for Automatic Extension of Time To File U.S. Individual Income Tax Return
4952. Investment Interest Expense Deduction
5329. Additional Taxes Attributable to Qualified Retirement Plans (Including IRAs), Annuities, and Modified Endowment Contracts
6251. Alternative Minimum Tax—Individuals
6283. Noncash Charitable Contributions
6552. Passive Activity Loss Limitations
8566. Nondeductible IRA Contributions, Distributions, and Basis
8822. Change of Address
8829. Expenses for Business Use of Your Home

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How to Get IRS Forms and Publications

You can visit your local IRS office or order tax forms and publications from the IRS Forms Distribution Center listed for your state at the address on this page. Or, if you prefer, you can photocopy tax forms from reproducible copies kept at participating public libraries. In addition, many of these libraries have reference sets of IRS publications that you can read or copy.

Where To Mail Your Order Blank for Free Forms and Publications

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<td>Foreign Addresses - Taxpayers with mailing addresses in foreign countries should mail this order blank to: Eastern Area Distribution Center, P.O. Box 25896, Richmond, VA 23260-8107; or Western Area Distribution Center, Rancho Cordova, CA 95743-0001, whichever is closer. Mail letter requests for other forms and publications to: Eastern Area Distribution Center, P.O. Box 25888, Richmond, VA 23260-8107.</td>
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We will send you 2 copies of each form and 1 copy of each publication or set of instructions you circle. Please cut the order blank on the dotted line above and be sure to print or type your name and address accurately on the bottom portion.

Enclose this order blank in your own envelope and address your envelope to the IRS address shown above for your state.

To help reduce waste, please order only the forms, instructions, and publications you think you will need to prepare your return.

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How To Get Forms and Publications

By Phone
Call 1-800-TAX-FORM (1-800-829-3676) between 8 a.m. and 5 p.m. weekdays, 9 a.m. to 3 p.m. Saturdays. (In Alaska and Hawaii, the hours are Pacific Standard Time; in Puerto Rico, the hours are Eastern Standard Time.) You should receive your order or notification of its status within 15 workdays of your call.

In Person
Visit your local IRS office or a participating post office or library. Post offices carry only the most common forms and schedules. Libraries stock a wider selection of forms and also have some publications available.

By Mail
Complete and mail the order blank.

By Computer and Modem
If you subscribe to an on-line service, ask if IRS information is available and, if so, how to access it.

The IRS offers the ability to download electronic print files of current tax forms, instructions, and taxpayer information publications (TIPS) in three different file formats. These are PostScript (PS), Hewlett Packard's Printer Control Language (PCL), and Adobe's Portable Document Format (PDF). The Adobe Acrobat Reader can also be downloaded for use with the PDF files. The TIPS are also available in Standard Generalized Markup Language (SGML).

Internal Revenue Information Services (IRIS) is housed within FedWorld, known also as the Electronic Marketplace of U.S. Government information, a broadly accessible electronic bulletin board system. FedWorld offers direct dial-up access, as well as Internet connectivity, and provides "gateway" access to more than 140 different Government bulletin boards.

IRIS at FedWorld can be reached by:
- Modem (dial-up) at (703) 224-5020
- Internet - Telnet to fedworld.gov
- File Transfer Protocol (FTP) - connect to ftp.fedworld.gov, or

In addition to tax products, IRIS also offers menu options for "Tax Information for the Media," "Business Tax Information," and "Individual Income Tax Information."

The IRS offers an alternative to downloading electronic files from IRIS and provides prior-year access to tax forms, instructions, and publications through its Federal Tax Forms CD-ROM.

The CD contains over 600 current-year IRS tax forms, instructions, and TIPS. Also included are prior-year forms and instructions beginning with the 1991 tax year and TIPS from 1994. It will be fully functional under MS-Windows 3.1 or Macintosh System 7.5 utilizing Adobe's Acrobat Exchange software. Cross-document links, a built-in index, and Verity search engine will complement the tax products provided in Adobe's Portable Document Format (PDF). The TIPS will also be provided in Standard Generalized Markup Language (SGML).

For system requirements and to order the 1995 Federal Tax Forms CD-ROM (stock number 848-065-00004-0), contact the Government Printing Office's Superintendent of Documents:
- by telephone (202-512-1800), or

The cost for the CD is $46 and it will be released in February 1996. If you order before December 1, 1995, you will also receive two CDs containing tax products issued before February's final CD release. These preview CDs, which are cumulative in design, will be distributed in December and January.