

## Mortgage insurance deductible but only for a few

WASHINGTON – Jan. 12, 2007 – Mortgage insurance is now deductible on federal income taxes but accompanied by so many restrictions that only a handful of Americans benefit.

President Bush signed a multi-faceted tax bill (H.R. 6111) that includes, among a host of other provisions, a very narrow new income tax deduction for some mortgage insurance (MI) premiums. According to the National Association of Realtors® (NAR), it's not clear when or if the IRS will provide additional guidance for this provision since it will be in effect for only one year and available only to a limited number of homebuyers.

### Key features of the provision:

- The deduction applies only to MI policies issued in 2007 for homes purchased in 2007.
  - The deduction does not apply to premium payments for policies issued before 2007.
  - The deduction applies to private MI, and to FHA, VA and Rural Housing premiums, as well. The MI premium amount will be treated as mortgage interest.
  - The new deduction is available only to individuals or families with less than \$100,000 adjusted gross income (AGI) on a joint or single tax return (\$50,000 for married filing separately returns).
- The provision phases out by 10 percent for each \$1000 of AGI over \$100,000 (\$50,000 for married filing separate). Thus, there is no MI deduction for individuals or families with AGI above \$110,000 (\$55,000 for married filing separately).
  - Individuals who claim the deduction are not permitted to prepay premiums that are otherwise due after 2007. The provision expires for any premium payment that is paid or that accrues after December 31, 2007.
  - If a mortgage (other than a VA, FHA or RHA mortgage) is prepaid during 2007, the unamortized premium balance on that mortgage is not deductible. (The unamortized premium balance is the amount of premium that would have been paid in a particular year if the payments had extended throughout that year.)
  - The homeowner will receive a statement from either the lender or the MI provider stating the proper amount of the MI deduction. That information will also be provided to the IRS.
- The MI deduction will not be available if an existing mortgage is refinanced in 2007 for an amount larger than the amount being refinanced.