



Topic 504 - Home Mortgage Points

The term "points" is used to describe certain charges paid to obtain a home mortgage. Points may be deductible as home mortgage interest, if you itemize deductions on [Form 1040, Schedule A \(PDF\)](#). If you can deduct all of the interest on your mortgages, you may be able to deduct all of the points paid on the mortgage. For more information on deducting interest, refer to [Topic 505](#).

You can deduct the points in full in the year they are paid, if all the following requirements are met:

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 your area.
3. The points paid were not more than the amount 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.
5. The points were not paid for items that usually are separately stated on the settlement sheet such as appraisal fees, inspection fees, title fees, attorney fees, or 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. You cannot have borrowed the funds from your lender or mortgage broker in order to pay the points.
7. You use your loan to buy or build your main home.
8. The points were computed as a percentage of the principal amount of the mortgage, and
9. The amount is clearly shown on your settlement statement.

Points that do not meet these requirements may be deductible over the life of the loan. Points paid for refinancing generally can only be deducted over the life of the new mortgage. However, if you use part of the refinanced mortgage proceeds to improve your main home and you meet the first six requirements stated previously, you can fully deduct the part of the points related to the improvement in the year you paid them with your own funds. Points charged for specific services, such as preparation costs for a mortgage note, appraisal fees or notary fees are not interest and cannot be deducted. Points paid by the seller of a home cannot be deducted as interest on the seller's return, but they are a selling expense which will reduce the amount of gain realized. Points paid by the seller may be deducted by the buyer provided the buyer subtracts the amount from the basis, or cost, of the residence. Points you pay on loans secured by your second home can be deducted only over the life of the loan.

You may be subject to a limit on some of your itemized deductions, including points; for more information on the adjusted gross income limitations please refer to the Form 1040 Instructions.

For more information on points, refer to [Publication 936, Home Mortgage Interest Deduction](#).

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