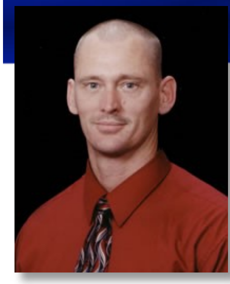

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Write−offs to Remember

Deductions in the Loan Process

Write−offs are the government's way of rewarding taxpayers when they've done something the government likes. And to judge by the write−offs, the government likes it when people borrow money to buy a house. There are write−offs aplenty, many of which people often forget.

Make sure your clients take advantage of every break the IRS will give. Here are a few they tend to forget:

Points:
According to the IRS, origination fees charged as points must be paid for the use of money, (for example, to obtain a lower interest rate) in order to be tax deductible. Origination fees that constitute a "service fee" are not tax deductible. The question must be asked, "Does the fee apply to the use of money, or is it a service charge?"

Discount points are paid to secure a lower interest rate. IRS Publication 936 lists a general rule that states, "You generally cannot deduct the full amount of points in the year paid. Because they are prepaid interest, you generally must deduct them over the life (term) of the mortgage." However, there are conditions which, if met, make discount points tax deductible in the year they are paid. (For more details on points and deductions, see http://www.irs.gov/publications/p936/ar02.html#d0e942.)

Pre−payment penalties:
Unforeseen circumstances often cause borrowers to pull out of their mortgages sooner than expected. Fortunately, pre−payment penalties are tax deductible, which helps ease the pain.

Pro−rated real estate taxes:
Even if the seller sent the tax collector the check, chances are the buyer paid a pro−rated portion of the taxes for the year at closing. Be sure they know to deduct their fair share.

Pro−rated mortgage interest:
Depending on when in the month the home sale closes, buyers pay either a hefty or a tiny amount of pro−rated mortgage interest for that month. Big or small, they can write that off. The Final Closing/Settlement Statement will show just how much they're due.

Home construction loan interest:
As long as the construction period doesn't last more than two years before they make the new place their "principal residence," they can write off the interest for that construction loan.

It pays to pay attention—all these write−offs can add up to some serious savings when tax time comes around.