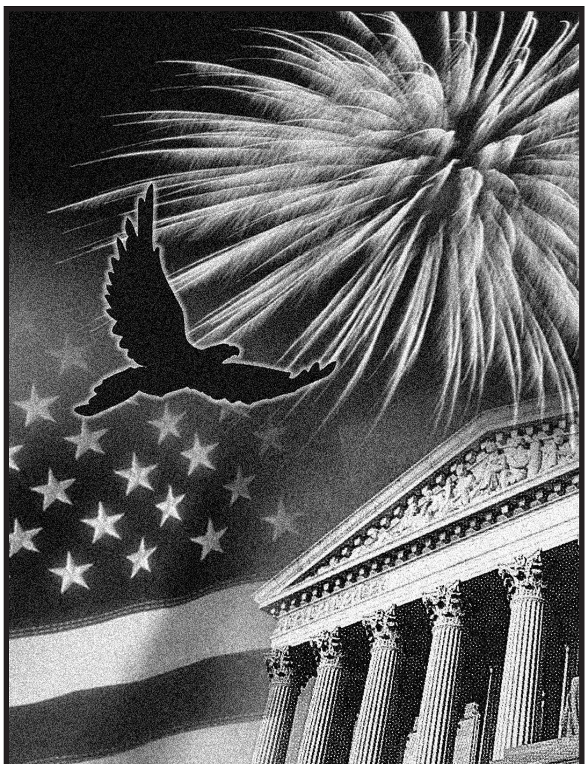
Department of the Treasury
Internal Revenue Service

Publication 936
Cat. No. 10426G

Home Mortgage Interest Deduction

For use in preparing

2018 Returns



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Contents

What's New

Mortgage insurance premiums. The itemized deduction for mortgage insurance premiums expired on December 31, 2017.

CAUTION: *At the time this publication went to print, Congress was considering legislation to extend the itemized deduction for mortgage insurance premiums. To find out if this legislation was enacted, and for more details, go to IRS.gov/Extenders.*

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.

Reminders

Future developments. For the latest information about developments related to Pub. 936, such as legislation enacted after it was published, go to *IRS.gov/Pub936*.

Photographs of missing children. The IRS is a proud partner with the *National Center for*

Missing & Exploited Children® (NCMEC). Photographs of missing children selected by 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.

Comments and suggestions. We welcome your comments about this publication and your suggestions for future editions.

You can send us comments through IRS.gov/FormComments. Or you can write to:

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Although we can't respond individually to each comment received, we do appreciate your feedback and will consider your comments as we revise our tax forms, instructions, and publications.

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Tax questions. If you have a tax question not answered by this publication, check IRS.gov and How To Get Tax Help at the end of this publication.

Useful Items

You may want to see:

Publication

- ❏ **523** Selling Your Home
- ❏ **527** Residential Rental Property
- ❏ **530** Tax Information for Homeowners
- ❏ **535** Business Expenses

See How To Get Tax Help near 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 deduct home mortgage interest if all the following conditions are met.

- You file Form 1040 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. As under prior law, the loan must be secured by the taxpayer's main home or second home (qualified residence), not exceed the cost of the home, 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 2018 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 2018 these mortgages plus any grandfathered debt totaled $750,000 or less ($375,000 or less if married filing separately).

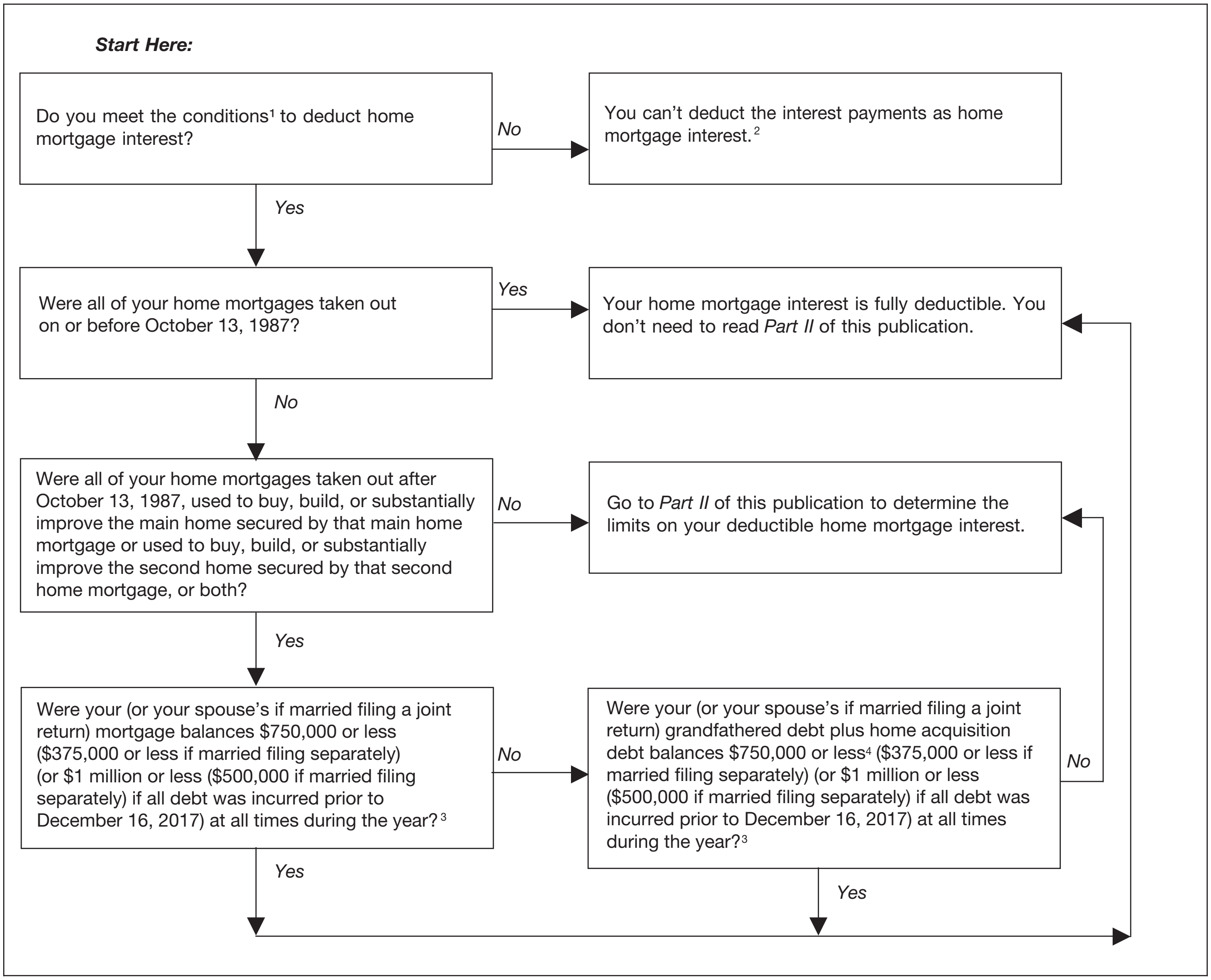
The dollar limits for the second and third categories apply to the combined mortgages on your main home and second home.

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.

Figure A. **Is My Home Mortgage Interest Fully Deductible?**

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



[1] 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.
[2] See Table 2 in *Part II* of this publication for where to deduct other types of interest payments.
[3] 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).
[4] See *Part II* of this publication for more information about grandfathered debt and home acquisition debt.

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. 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 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 John can't deduct any of the interest he pays 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 also must 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. John and Peggy Harris 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.

Hardest Hit Fund and Emergency Homeowners' Loan Programs. You can use a special method to figure your deduction for mortgage interest and real estate taxes on your main home if you meet the following two conditions.

1. You received assistance under:
   a. A State Housing Finance Agency (State HFA) Hardest Hit Fund program in which program payments could be used to pay mortgage interest, or
   b. An Emergency Homeowners' Loan Program administered by the Department of Housing and Urban Development (HUD) or a state.
2. 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.

If you meet these conditions, then you can deduct all of the payments you actually made during the year to your mortgage servicer, the State HFA, or HUD on the home mortgage (including the amount shown in box 3 of Form 1098-MA, Mortgage Assistance Payments), but not more than the sum of the amounts shown on Form 1098, Mortgage Interest Statement, in box 1 (mortgage interest received from payer(s)/borrower(s)) and box 10 (real property taxes). You may first allocate amounts paid to mortgage interest up to the amount shown on Form 1098. You may then use any reasonable method to allocate the remaining balance of the payments to real property taxes, mortgage insurance premiums, and principal. Regardless of how you determine the deductible amount under this special safe harbor method, any amount allocated to state or local property taxes is subject to the limitation on the deduction for state and local taxes. However, you're not required to use this special method to figure your deduction for mortgage interest and real estate taxes on your main home.

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.

Divorced or separated individuals. If a divorce or separation agreement requires you or your spouse or former spouse to pay home mortgage interest on a home owned 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 he or she is 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. Any interest (including original issue discount) accrued on a reverse mortgage is considered 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 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. 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 21.

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 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.

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.

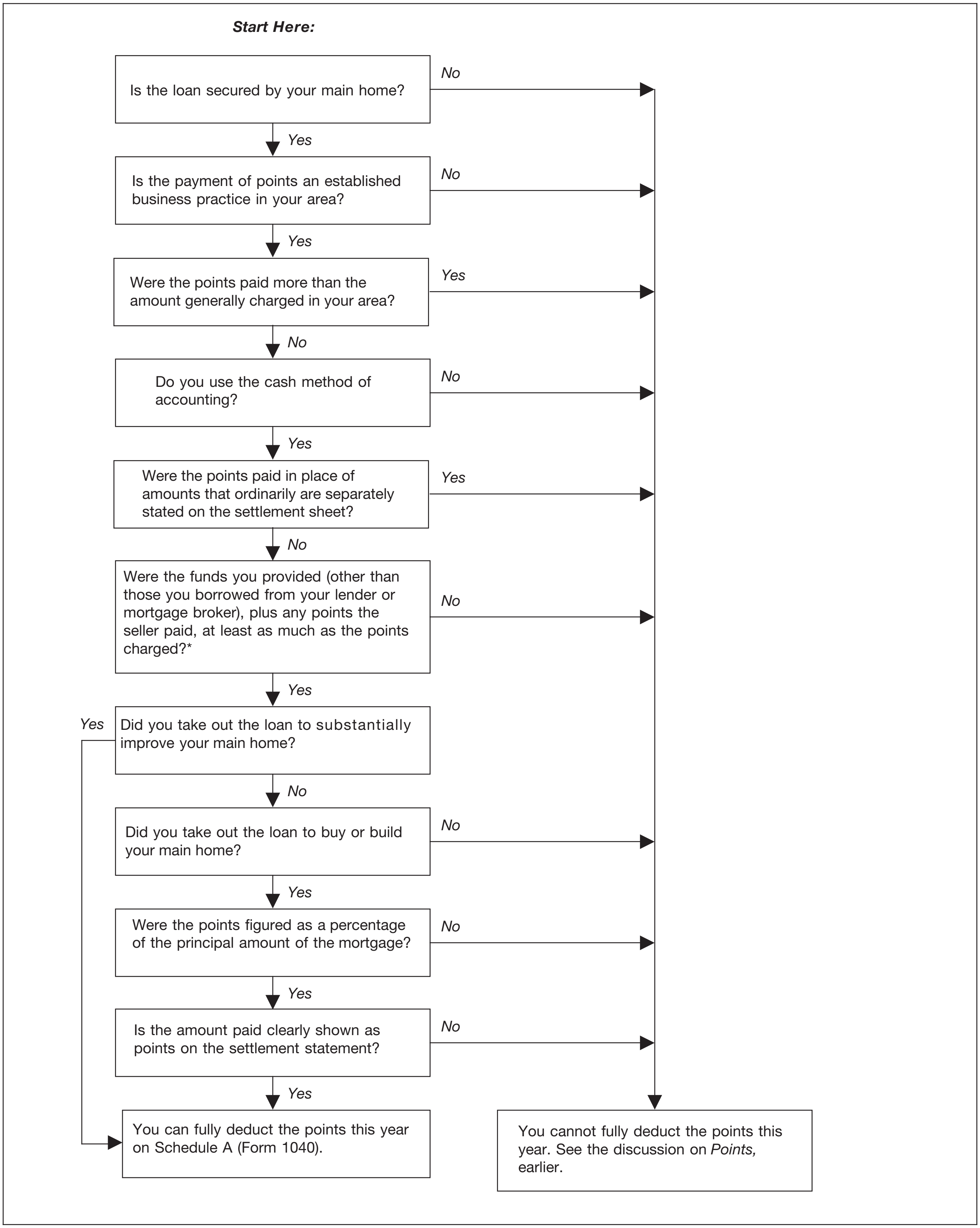
If you receive a Form 1098 from the cooperative housing corporation, the form should show only the amount you can deduct.

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.

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.

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.
5. Either your loan amount is $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.

Example. You use the cash method of accounting. In 2018, 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 2018. You can deduct $60 [($4,800 ÷ 240 months) x 3 payments] in 2018. In 2019, if you make all twelve payments, you will be able to deduct $240 ($20 x 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 ordinarily are 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.

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.

CAUTION ***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 1998, Bill Fields got a mortgage to buy a home. In 2018, Bill refinanced that mortgage with a 15-year $100,000 mortgage loan. 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 charged for services, in place of amounts that ordinarily are stated separately on the settlement statement. 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 aren't more than the amount generally charged there. Bill's first payment on the new loan was due July 1. He made six payments on the loan in 2018 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 for Bill's continued ownership of his main home, it wasn't for the purchase or substantial improvement of that home. He can't deduct all of the points in 2018. 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 in 2018. 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 Bill used $25,000 of the loan proceeds to substantially improve his home and $75,000 to repay his existing mortgage. Bill deducts 25% ($25,000 ÷ $100,000) of the points ($2,000) in 2018. His deduction is $500 ($2,000 × 25% (0.25)).

Bill also deducts 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 ÷ 180 months) × 6 payments] in 2018. The total amount Bill deducts in 2018 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, which is discussed in chapter 4 of Pub. 535.

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 he or she 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)), 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. Dan paid $3,000 in points in 2007 that he had to spread out over the 15-year life of the mortgage. He deducts $200 points per year. Through 2018, Dan has deducted $2,200 of the points.

Dan prepaid his mortgage in full in 2018. He can deduct the remaining $800 of points in 2018.

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 deductible points paid during the year. See Form 1098, Mortgage Interest Statement next.

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 generally will 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, and if you purchased a principal residence during the year, it also will 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 also may 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 2018 that accrued in full by January 15, 2019, this prepaid interest may be included in box 1 of Form 1098. However, you can't deduct the prepaid amount for January 2019 in 2018. (See Prepaid interest, earlier.) You will have to figure the interest that accrued for 2019 and subtract it from the amount in box 1. You will include the interest for January 2019 with other interest you pay for 2019.

Refunded interest. If you received a refund of mortgage interest you overpaid in an earlier year, you generally will 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.

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 his or her 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. See chapter 4 of Pub. 535 for details on these 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.

$$\frac{\text{Your shares of stock in the cooperative}}{\text{The total shares of stock in the cooperative}}$$

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 also must 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 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.

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.

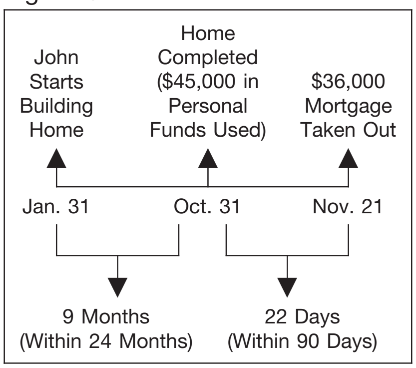
Mortgage treated as used to buy, build, or substantially improve home. A mortgage secured by a qualified home may be treated as home acquisition debt, even if you don't actually use the proceeds to buy, build, or substantially improve the home. This applies in the following situations.

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, 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. On November 21, John 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.

Repairs that maintain your home in good condition, such as repainting your home, aren't 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. If you incur debt to acquire the interest of a spouse or former spouse in a home because of a divorce or legal separation, you can treat that debt as home acquisition debt.

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

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 doesn't matter.

Grandfathered debt isn't 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 limit for home acquisition debt.

Refinanced grandfathered debt. If you refinanced grandfathered debt after October 13, 1987, for an amount that wasn't 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 debt (so long as the proceeds were used to buy, build, or substantially improve the home), 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 to the extent that it was used to buy, build, or substantially improve the home.

Exception. If the debt before refinancing was like a balloon note (the principal on the debt wasn't amortized over the term of the debt), then you treat the refinanced debt as grandfathered debt for the term of the first refinancing. This term can't be more than 30 years.

Example. Chester took out a $200,000 first mortgage on his home in 1986. The mortgage was a 5-year balloon note and the entire balance on the note was due in 1991. Chester refinanced the debt in 1991 with a new 30-year mortgage. The refinanced debt is treated as grandfathered debt for its entire term (30 years).

Table 1 Instructions

You can deduct all of the interest you paid during the year on mortgages secured by your main home or second home in either of the following two situations.

- All the mortgages are grandfathered debt.
- The total of the mortgage balances for the entire year is within the limits discussed earlier under *Home Acquisition Debt*.

In either of those cases, you don't need Table 1. Otherwise, you can use Table 1 to determine your qualified loan limit and deductible home mortgage interest.

TIP *Fill out only one Table 1 for both your main and second home regardless of how many mortgages you have.*

Table 1. **Worksheet To Figure Your Qualified Loan Limit and Deductible Home Mortgage Interest For the Current Year**

See the ***Table 1 Instructions***.

Keep for Your Records

Part I Qualified Loan Limit

1.	Enter the average balance of all your grandfathered debt. See the line 1 instructions	**1.**	
2.	Enter the average balance of all your home acquisition debt incurred prior to December 16, 2017. See the line 2 instructions	**2.**	
3.	Enter $1,000,000 ($500,000 if married filing separately)	**3.**	
4.	Enter the larger of the amount on line 1 or the amount on line 3	**4.**	
5.	Add the amounts on lines 1 and 2. Enter the total here	**5.**	
6.	Enter the smaller of the amount on line 4 or the amount on line 5	**6.**	
	• If you have no home acquisition debt incurred after December 15, 2017, or the amount on line 6 is $750,000 ($375,000 if married filing separately) or more, line 6 is your qualified loan limit. Enter this amount on line 11 and go to Part II, line 12. • If you have home acquisition debt incurred after December 15, 2017, go to line 7.		
7.	Enter the average balance of all your home acquisition debt incurred after December 15, 2017. See the line 7 instructions	**7.**	
8.	Enter $750,000 ($375,000 if married filing separately)	**8.**	
9.	Enter the larger of the amount on line 6 or the amount on line 8	**9.**	
10.	Add the amounts on lines 6 and 7. Enter the total here	**10.**	
11.	Enter the smaller of line 9 or line 10. **This is your qualified loan limit**	**11.**	

Part II Deductible Home Mortgage Interest

12.	Enter the total of the average balances of all mortgages from lines 1, 2, and 7 on all qualified homes. See the line 12 instructions	**12.**	
	• If line 11 is less than line 12, go on to line 13. • If line 11 is equal to or more than line 12, stop here. All of your interest on all the mortgages included on line 12 is deductible as home mortgage interest on Schedule A (Form 1040).		
13.	Enter the total amount of interest that you paid on the loans from line 12. See the line 13 instructions	**13.**	
14.	Divide the amount on line 11 by the amount on line 12. Enter the result as a decimal amount (rounded to three places)	**14.**	× .
15.	Multiply the amount on line 13 by the decimal amount on line 14. Enter the result. **This is your deductible home mortgage interest.** Enter this amount on Schedule A (Form 1040)	**15.**	
16.	Subtract the amount on line 15 from the amount on line 13. Enter the result. **This isn't home mortgage interest.** See the line 16 instructions	**16.**	

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, 7, and 12 of Table 1. You can use the highest mortgage balances during the year, but you may benefit most by using the average balances. The following are methods you can use to figure your average mortgage balances. However, if a mortgage has more than one category of debt, see *Mixed-use mortgages*, later, in this section.

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

- You didn't borrow any new amounts on the mortgage during the year. (This doesn't include borrowing the original mortgage amount.)
- You didn't prepay more than 1 month's principal during the year. (This includes prepayment by refinancing your home or by applying proceeds from its sale.)
- 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 worksheet.

1.	Enter the balance as of the first day of the year that the mortgage was secured by your qualified home during the year (generally, January 1)	______
2.	Enter the balance as of the last day of the year that the mortgage was secured by your qualified home during the year (generally, December 31)	______
3.	Add amounts on lines 1 and 2	______
4.	Divide the amount on line 3 by 2.0. Enter the result	______

Interest paid divided by interest rate method. You can use this method if at all times in 2018 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.

1.	Enter the interest paid in 2018. Don't include points, mortgage insurance premiums, or any interest paid in 2018 that is for a year after 2018. However, do include interest that is for 2018 but was paid in an earlier year	_____
2.	Enter the annual interest rate on the mortgage. If the interest rate varied in 2018, use the lowest rate for the year	_____
3.	Divide the amount on line 1 by the amount on line 2. Enter the result	_____

Example. Mr. Blue had a mortgage secured by his main home all year. He paid interest of $2,500 on this loan. The interest rate on the loan was 9% (0.09) all year. His average balance using this method is $27,778, figured as follows.

1.	Enter the interest paid in 2018. Don't include points, mortgage insurance premiums, or any interest paid in 2018 that is for a year after 2018. However, do include interest that is for 2018 but was paid in an earlier year	$2,500
2.	Enter the annual interest rate on the mortgage. If the interest rate varied in 2018, use the lowest rate for the year	0.09
3.	Divide the amount on line 1 by the amount on line 2. Enter the result	$27,778

Statements provided by your lender. If you receive monthly statements showing the closing balance or the average balance for the month, you can use either to figure your average balance for the year. You can treat the balance as zero for any month the mortgage wasn't secured by your qualified home.

For each mortgage, figure your average balance by adding your monthly closing or average balances and dividing that total by the number of months the home secured by that mortgage was a qualified home during the year.

If your lender can give you your average balance for the year, you can use that amount.

Example. Ms. Brown had a home loan secured by her main home all year. She received monthly statements showing her average balance for each month. She can figure her average balance for the year by adding her monthly average balances and dividing the total by 12.

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 during the year is a mixed-use mortgage if you used its proceeds partly to refinance a mortgage that you took out in an earlier year to buy your home (home acquisition debt) and partly to buy a car (home equity debt).

Complete lines 1, 2, and 7 of Table 1 by including the separate average balances of any grandfathered debt and home acquisition debt (determined by the date the debt was acquired) in your mixed-use mortgage. Don't 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.

   a. First, any home equity debt not used to buy, build, or substantially improve the home.

   b. Next, any grandfathered debt.

   c. Finally, any home acquisition debt.

2. Add together the monthly balances figured for b and c in (1).

Complete line 12 of Table 1 using the figure from line (2) above.

Example 1. In 1986, Sharon took out a first mortgage of $1,400,000. The mortgage was a 5-year balloon note and the entire balance on the note was due in 1991. She refinanced the debt in 1991 with a new 30-year mortgage (grandfathered debt). On March 2, 2018, when the home had a fair market value of $1,700,000 and she owed $500,000 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 at the end of each month. During 2018, her principal payments on the second mortgage totaled $10,000.

To complete Table 1, line 7, 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 2018 was $150,000 ($1,800,000 ÷ 12).

Example 2. The facts are the same as in *Example 1*. In 2019, 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 2019 is $179,750 ($2,157,000 ÷ 12).

Line 1

Figure the average balance for the current year of each mortgage you had on all qualified homes on October 13, 1987 (grandfathered debt). Add the results together and enter the total on line 1. Include the average balance for the current year for any grandfathered debt part of a mixed-use mortgage.

Line 2

Figure the average balance for the current year of each mortgage you took out on all qualified homes after October 13, 1987, and prior to December 16, 2017, to buy, build, or substantially improve the home (home acquisition debt). Add the results together and enter the total on line 2. Include the average balance for the current year for any home acquisition debt part of a mixed-use mortgage.

Line 7

Figure the average balance for the current year of each mortgage you took out on all qualified homes after December 15, 2017, to buy, build, or substantially improve the home (home acquisition debt). Add the results together and enter the total on line 7.

Line 12

Figure the average balance for the current year of each outstanding home mortgage. Add the average balances together and enter the total on line 12. See *Average Mortgage Balance*, earlier.

Note. If the average balance consists of more than one category of debt (grandfathered debt, home acquisition debt, and home equity debt), see *Mixed-use mortgages*, earlier, to figure the average mortgage balance.

Line 13

If you make payments to a financial institution, or to a person whose business is making loans, you should get Form 1098 or a similar statement from the lender. This form will show the amount of interest to enter on line 13. Also include on this line any other interest payments made on debts secured by a qualified home for which you didn't receive a Form 1098. Don't include points on this line.

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

1. Figure your deductible points for the current year using the rules explained under *Points* in *Part I*, earlier.
2. Multiply the amount in item (1) by the decimal amount on line 14. Enter the result on Schedule A (Form 1040), line 8. This amount is fully deductible.
3. Subtract the result in item (2) from the amount in item (1). This amount isn't deductible as home mortgage interest. However, if you used any of the loan proceeds for business or investment activities, see the instructions for line 16 next.

Line 16

You can't deduct the amount of interest on line 16 as home mortgage interest. If you didn't use any of the proceeds of any mortgage included on line 12 of the worksheet for business, investment, or other deductible activities, then all the interest on line 16 is personal interest. Personal interest isn't deductible.

Table 2. **Where To Deduct Your Interest Expense**

IF you have ...	THEN deduct it on ...	AND for more information, go to ...
deductible student loan interest	Schedule 1 (Form 1040), line 33	Pub. 970, Tax Benefits for Education.
deductible home mortgage interest and points reported on Form 1098	Schedule A (Form 1040), line 8	this publication (936).
deductible home mortgage interest not reported on Form 1098	Schedule A (Form 1040), line 8	this publication (936).
deductible points not reported on Form 1098	Schedule A (Form 1040), line 8	this publication (936).
deductible investment interest (other than incurred to produce rents or royalties)	Schedule A (Form 1040), line 9	Pub. 550, Investment Income and Expenses.
deductible business interest (non-farm)	Schedule C or C-EZ (Form 1040)	Pub. 535, Business Expenses.
deductible farm business interest	Schedule F (Form 1040)	Pubs. 225, Farmer's Tax Guide, and 535, Business Expenses.
deductible interest incurred to produce rents or royalties	Schedule E (Form 1040)	Pubs. 527, Residential Rental Property, and 535, Business Expenses.
personal interest	not deductible.	

If you did use all or part of any mortgage proceeds for business, investment, or other deductible activities, the part of the interest on line 16 that is allocable to those activities can be deducted as business, investment, or other deductible expense, subject to any limits that apply. Table 2 shows where to deduct that interest. See *Allocation of Interest* in chapter 4 of Pub. 535 for an explanation of how to determine the use of loan proceeds.

The following two rules describe how to allocate the interest on line 16 to a business or investment activity.

- If you used all of the proceeds of the mortgages on line 12 for one activity, then all the interest on line 16 is allocated to that activity. In this case, deduct the interest on the form or schedule to which it applies.
- If you used the proceeds of the mortgages on line 12 for more than one activity, then you can allocate the interest on line 16 among the activities in any manner you select (up to the total amount of interest otherwise allocable to each activity, explained next).

You figure the total amount of interest otherwise allocable to each activity by multiplying the amount on line 13 by the following fraction.

$$\frac{\text{Amount on line 12 allocated to that activity}}{\text{Total amount on line 12}}$$

Example. Don had two mortgages (A and B) on his main home during the entire year. Mortgage A had an average balance of $90,000, and mortgage B had an average balance of $110,000.

Don determines that the proceeds of mortgage A are allocable to personal expenses for the entire year. The proceeds of mortgage B are allocable to his business for the entire year. 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 Table 1, line 16 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 13 (the $30,000 total interest paid) by the following fraction.

$$\frac{\text{\$110,000 (the average balance of the mortgage allocated to the business)}}{\text{\$200,000 (the total average balance of all mortgages)}}$$

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).

How To Get Tax Help

If you have questions about a tax issue, need help preparing your tax return, or want to download free publications, forms, or instructions, go to IRS.gov and find resources that can help you right away.

Tax reform. Major tax reform legislation impacting individuals, businesses, and tax-exempt entities was enacted in the Tax Cuts and Jobs Act on December 22, 2017. Go to *IRS.gov/TaxReform* for information and updates on how this legislation affects your taxes.

Preparing and filing your tax return. Find free options to prepare and file your return on IRS.gov or in your local community if you qualify.

The Volunteer Income Tax Assistance (VITA) program offers free tax help to people who generally make $55,000 or less, persons with disabilities, and limited-English-speaking taxpayers who need help preparing their own tax returns. The Tax Counseling for the Elderly (TCE) program offers free tax help for all taxpayers, particularly those who are 60 years of age and older. TCE volunteers specialize in answering questions about pensions and retirement-related issues unique to seniors.

You can go to IRS.gov and click on the Filing tab to see your options for preparing and filing your return which include the following.

- **Free File.** Go to *IRS.gov/FreeFile* to see if you qualify to use brand-name software to prepare and *e-file* your federal tax return for free.
- **VITA.** Go to *IRS.gov/VITA*, download the free IRS2Go app, or call 800-906-9887 to find the nearest VITA location for free tax return preparation.
- **TCE.** Go to *IRS.gov/TCE*, download the free IRS2Go app, or call 888-227-7669 to find the nearest TCE location for free tax return preparation.

Getting answers to your tax law questions. On IRS.gov, get answers to your tax questions anytime, anywhere.

- Go to *IRS.gov/Help* for a variety of tools that will help you get answers to some of the most common tax questions.
- Go to *IRS.gov/ITA* for the Interactive Tax Assistant, a tool that will ask you questions on a number of tax law topics and provide answers. You can print the entire interview and the final response for your records.
- Go to *IRS.gov/Pub17* to get Pub. 17, Your Federal Income Tax for Individuals, which features details on tax-saving opportunities, 2018 tax changes, and thousands of interactive links to help you find answers to your questions. View it online in HTML, as a PDF, or download it to your mobile device as an eBook.
- You may also be able to access tax law information in your electronic filing software.

Getting tax forms and publications. Go to *IRS.gov/Forms* to view, download, or print all of the forms and publications you may need. You can also download and view popular tax publications and instructions (including the 1040 instructions) on mobile devices as an eBook at no charge. Or you can go to *IRS.gov/OrderForms* to place an order and have forms mailed to you within 10 business days.

Access your online account (individual taxpayers only). Go to *IRS.gov/Account* to securely access information about your federal tax account.

- View the amount you owe, pay online, or set up an online payment agreement.
- Access your tax records online.
- Review the past 24 months of your payment history.
- Go to *IRS.gov/SecureAccess* to review the required identity authentication process.

Using direct deposit. The fastest way to receive a tax refund is to combine direct deposit and IRS *e-file*. Direct deposit securely and electronically transfers your refund directly into your financial account. Eight in 10 taxpayers use direct deposit to receive their refund. The IRS issues more than 90% of refunds in less than 21 days.

Refund timing for returns claiming certain credits. The IRS can't issue refunds before mid-February 2019 for returns that claimed the earned income credit (EIC) or the additional child tax credit (ACTC). This applies to the entire refund, not just the portion associated with these credits.

Getting a transcript or copy of a return. The quickest way to get a copy of your tax transcript is to go to *IRS.gov/Transcripts*. Click on either "Get Transcript Online" or "Get Transcript by Mail" to order a copy of your transcript. If you prefer, you can:

- Order your transcript by calling 800-908-9946, or
- Mail Form 4506-T or Form 4506T-EZ (both available on IRS.gov).

Using online tools to help prepare your return. Go to *IRS.gov/Tools* for the following.

- The *Earned Income Tax Credit Assistant* (*IRS.gov/EITCAssistant*) determines if you're eligible for the EIC.
- The *Online EIN Application* (*IRS.gov/EIN*) helps you get an employer identification number.
- The *IRS Withholding Calculator* (*IRS.gov/W4App*) estimates the amount you should have withheld from your paycheck for federal income tax purposes and can help you perform a "paycheck checkup."
- The *First Time Homebuyer Credit Account Look-up* (*IRS.gov/HomeBuyer*) tool provides information on your repayments and account balance.
- The *Sales Tax Deduction Calculator* (*IRS.gov/SalesTax*) figures the amount you can claim if you itemize deductions on Schedule A (Form 1040), choose not to claim state and local income taxes, and you didn't save your receipts showing the sales tax you paid.

Resolving tax-related identity theft issues.

- The IRS doesn't initiate contact with taxpayers by email or telephone to request personal or financial information. This includes any type of electronic communication, such as text messages and social media channels.
- Go to *IRS.gov/IDProtection* for information.
- If your SSN has been lost or stolen or you suspect you're a victim of tax-related identity theft, visit *IRS.gov/IdentityTheft* to learn what steps you should take.

Checking on the status of your refund.

- Go to *IRS.gov/Refunds*.
- The IRS can't issue refunds before mid-February 2019 for returns that claimed the EIC or the ACTC. This applies to the entire refund, not just the portion associated with these credits.
- Download the official IRS2Go app to your mobile device to check your refund status.
- Call the automated refund hotline at 800-829-1954.

Making a tax payment. The IRS uses the latest encryption technology to ensure your electronic payments are safe and secure. You can make electronic payments online, by phone, and from a mobile device using the IRS2Go app. Paying electronically is quick, easy, and faster than mailing in a check or money order. Go to *IRS.gov/Payments* to make a payment using any of the following options.

- *IRS Direct Pay*: Pay your individual tax bill or estimated tax payment directly from your checking or savings account at no cost to you.
- **Debit or credit card:** Choose an approved payment processor to pay online, by phone, and by mobile device.
- **Electronic Funds Withdrawal:** Offered only when filing your federal taxes using tax return preparation software or through a tax professional.
- **Electronic Federal Tax Payment System:** Best option for businesses. Enrollment is required.
- **Check or money order:** Mail your payment to the address listed on the notice or instructions.
- **Cash:** You may be able to pay your taxes with cash at a participating retail store.

What if I can't pay now? Go to *IRS.gov/Payments* for more information about your options.

- Apply for an *online payment agreement* (*IRS.gov/OPA*) to meet your tax obligation in monthly installments if you can't pay your taxes in full today. Once you complete the online process, you will receive immediate notification of whether your agreement has been approved.
- Use the *Offer in Compromise Pre-Qualifier* (*IRS.gov/OIC*) to see if you can settle your tax debt for less than the full amount you owe.

Checking the status of an amended return. Go to *IRS.gov/WMAR* to track the status of Form 1040X amended returns. Please note that it can take up to 3 weeks from the date you mailed your amended return for it to show up in our system and processing it can take up to 16 weeks.

Understanding an IRS notice or letter. Go to *IRS.gov/Notices* to find additional information about responding to an IRS notice or letter.

Contacting your local IRS office. Keep in mind, many questions can be answered on IRS.gov without visiting an IRS Tax Assistance Center (TAC). Go to *IRS.gov/LetUsHelp* for the topics people ask about most. If you still need help, IRS TACs provide tax help when a tax issue can't be handled online or by phone. All TACs now provide service by appointment so you'll know in advance that you can get the service you need without long wait times. Before you visit, go to *IRS.gov/TACLocator* to find the nearest TAC, check hours, available services, and appointment options. Or, on the IRS2Go app, under the Stay Connected tab, choose the Contact Us option and click on "Local Offices."

Watching IRS videos. The IRS Video portal (*IRSVideos.gov*) contains video and audio presentations for individuals, small businesses, and tax professionals.

Getting tax information in other languages. For taxpayers whose native language isn't English, we have the following resources available. Taxpayers can find information on IRS.gov in the following languages.

- *Spanish* (*IRS.gov/Spanish*).
- *Chinese* (*IRS.gov/Chinese*).
- *Vietnamese* (*IRS.gov/Vietnamese*).
- *Korean* (*IRS.gov/Korean*).
- *Russian* (*IRS.gov/Russian*).

The IRS TACs provide over-the-phone interpreter service in over 170 languages, and the service is available free to taxpayers.

The Taxpayer Advocate Service (TAS) Is Here To Help You

What is TAS?

TAS is an ***independent*** organization within the IRS that helps taxpayers and protects taxpayer rights. Their job is to ensure that every taxpayer is treated fairly and that you know and understand your rights under the *Taxpayer Bill of Rights*.

How Can You Learn About Your Taxpayer Rights?

The Taxpayer Bill of Rights describes 10 basic rights that all taxpayers have when dealing with the IRS. Go to *TaxpayerAdvocate.IRS.gov* to help you understand *what these rights mean to you* and how they apply. These are ***your*** rights. Know them. Use them.

What Can TAS Do For You?

TAS can help you resolve problems that you can't resolve with the IRS. And their service is free. If you qualify for their assistance, you will be assigned to one advocate who will work with you throughout the process and will do everything possible to resolve your issue. TAS can help you if:

- Your problem is causing financial difficulty for you, your family, or your business;
- You face (or your business is facing) an immediate threat of adverse action; or
- You've tried repeatedly to contact the IRS but no one has responded, or the IRS hasn't responded by the date promised.

How Can You Reach TAS?

TAS has offices *in every state, the District of Columbia, and Puerto Rico*. Your local advocate's number is in your local directory and at *TaxpayerAdvocate.IRS.gov/Contact-Us*. You can also call them at 877-777-4778.

How Else Does TAS Help Taxpayers?

TAS works to resolve large-scale problems that affect many taxpayers. If you know of one of these broad issues, please report it to them at *IRS.gov/SAMS*.

TAS also has a website, *Tax Reform Changes*, which shows you how the new tax law may change your future tax filings and helps you plan for these changes. The information is categorized by tax topic in the order of the IRS Form 1040. Go to *TaxChanges.us* for more information.

Low Income Taxpayer Clinics (LITCs)

LITCs are independent from the IRS. LITCs represent individuals whose income is below a certain level and need to resolve tax problems with the IRS, such as audits, appeals, and tax collection disputes. In addition, clinics can provide information about taxpayer rights and responsibilities in different languages for individuals who speak English as a second language. Services are offered for free or a small fee. To find a clinic near you, visit *TaxpayerAdvocate.IRS.gov/LITCmap* or see IRS Pub. 4134, *Low Income Taxpayer Clinic List*.

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To help us develop a more useful index, please let us know if you have ideas for index entries. See "Comments and Suggestions" in the "Introduction" for the ways you can reach us.