By Phil Hunt

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Q: We are buying our first home and getting a loan with mortgage insurance. In your Jan. 24 article you stated that mortgage insurance was deductible from our taxes. Can you elaborate?

A: It will only work if you file a long-form 1040 tax return. Your tax professional will know how this works. But, for the benefit of those who may be filing their own returns, here is the information I have gleaned from MGIC, (a company issuing mortgage insurance). Note: this deduction applies for 2012 and 2013 tax returns.

1. It applies to all loans on the borrowers primary residence or a second home that is not rented out as long as the taxpayer pays and the loan was made for the purpose of purchasing, improving or building the residence, and the residence is the security for the loan.

2. It can include a first and second loan if the money was used for acquisition of the property.

3. If a borrower refinances and takes an “equity loan” it is not deductible unless the money was used to improve the property.

4. You may refinance up to the amount of the original indebtedness, first and second included; if all the money was used to acquire the property, it is deductible.

5. The deduction is taken exactly as is on the interest on the loan on the taxpayer’s primary residence or on a non-rental second home. Commercial and/or rental property loans do not qualify.

6. For married couples filing a joint return, borrower’s adjusted gross income of $100,000 or less get 100 percent of the mortgage insurance paid as a deduction. The percentage decreases for each $1,000 of adjusted income over $100,000 (by 10 percent per $1,000).

7. For a single taxpayer with an adjusted income of $50,000 or less, they get 50 percent of the amount paid for M.I. For every $500 of adjusted gross income over the $50,000, the deductible amount drops by 5 percent.

8. Adjusted gross income is calculated prior to any itemized deductions, including M.I. deductions.

9. If the taxpayer paid a single premium for M.I. when they closed escrow on their purchase, that amount is deductible. Contact a tax professional for specifics.

10. If the M.I. is financed by the lender at the time of the purchase, it is believed that the portion of the payment that pays for the M.I. is also deductible. Contact a tax professional for specifics.

11. If the taxpayer is successful in getting the M.I. insurance dropped in 2012 or 2013, the portion of the year that the taxpayer paid the premium, less any credit back from the M.I. company, would be deductible to the extent of the money paid in that year and if the income threshold is met.

Nothing here is to be construed as tax advice; contact your tax professional for tax advice.

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