



An Accountancy Corporation

DON'T OVERLOOK THE TAX ISSUES WHEN YOU REFINANCE

With interest rates as low as they have been for almost 40 years, now is the time to consider refinancing your home mortgage. Here are a few tax tips that shouldn't be overlooked.

While you can fully deduct the points you pay when you buy your home, any points paid on a refinancing are deducted evenly over the term of the loan. If you refinance a loan for a second time, the balance of any remaining points from the previous loan will become immediately deductible. Also, if you're deducting points over the term of a loan, those remaining points are deductible when the home is sold.

If you pull out additional cash in the refinancing, and then use some (or all) of that cash to improve your main home, a portion of the points is deductible if you actually pay those points "up front." The amount of the deductible points is a percentage of the funds used for your home improvements compared to the total amount of the loan. Any points not immediately deductible can be spread out evenly over the term of the loan.

If you pull out additional cash of \$100,000 or less when you refinance, the interest on that amount is deductible. If you pull out more, the interest may or may not be deductible depending on how the additional funds are used. If you use those funds to expand your business, the interest would be deductible business interest. If you buy investments, the interest would be investment interest expense.

While most other loan fees are not deductible, some of your property taxes may be paid through the refinancing and are deductible. Also, if you do refinance to a lower interest rate, you'll pay less interest and have a lower mortgage interest deduction on your income tax return. Make sure to double-check your tax withholding in order to avoid an unanticipated tax bill later.

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