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Getting Your Home Mortgage Interest Deductions

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Getting your home mortgage interest deductions

For many taxpayers, the interest deduction on a personal residence is the largest single deduction on their income tax return, often exceeding the standard deduction limits.

This means most taxpayers who pay mortgage interest itemize their deductions. If you itemize, you must keep accurate records and be able to prove your deduction was correct and proper if you are audited.

What do you need to know?

First, you need to know what your home mortgage interest is.

Interest is the cost you pay to borrow money. This may include interest, mortgage insurance and discount points.

To qualify for the mortgage interest deduction, your home must be the collateral for the money you borrow from a bank or other financial institution. This means the lender has a mortgage or other security interest filed against your house that can be enforced if you default on your loan.

Many individuals borrow money against their investments to purchase a home. If this is the case, the security on the loan is the investments and not your home and any interest paid for this loan does not qualify as a deduction.

For your home to be the collateral for the loan, the value of the home must be equal to or greater than the amount of the loan. This presents a problem for taxpayers who bought homes at the top of the housing boom and put no money down.

What if you have two homes?
The law will allow you to deduct interest for both so long as the homes are collateral for the debt and the amount you borrowed to buy, build or improve your first and/or second home does not exceed $1 million.

There also is a $100,000 limit on how much you can borrow against your home to pay for something else. You may borrow money against the equity in your home to take a trip, or pay for college tuition, medical bills, or a new car — the choices are endless.

The value of the home must be greater than or equal to the amount of the debt.

For example: Susan and Joe bought a house in Savannah in 1990 for $250,000; they put $50,000 down and borrowed the rest. The house is now worth $450,000 and they borrowed $250,000 to buy a second home in Maine.

The home in Maine is a second home, but it isn’t the collateral for the $250,000 loan. The home in Savannah is the collateral and the $250,000 is not being used to substantially improve that home; it is being used for something else.

If Susan and Joe want to deduct all the interest they are paying on the second home in Maine, they need to see their banker about permanent financing. Otherwise, they will only be able to deduct 40 percent of the interest on the second loan ($100,000/ $250,000 x interest expense).

Warning: Losing part of the interest deduction may not be Susan and Joe’s biggest problem. If Susan and Joe have one large debt on their principal residence and cannot pay the interest, they risk losing everything.

If Susan and Joe get separate mortgages for the second house and discover they can pay the mortgage on the principal residence, but the second house becomes too much, they may lose the second house if they cannot sell it. But they do not set themselves up to lose the primary house as well.

Second example: Susan and Joe bought a house in Savannah in 2006 for $750,000. The house is now down the middle and they own only worth $500,000. Susan and Joe can only deduct two-thirds of the interest they pay on the house ($500,000/ $750,000 x interest expense).

The lender does not do the math on any of this. The lender just sends you a 1098 or other statement giving you the amount of interest you paid on your loan. It is up to you to determine if the interest qualifies as home mortgage interest deduction. If you have any questions, please see your CPA.

This week in Savannah

Stowaways caught at Georgia Ports

Three stowaways from the Dominican Republic jumped ship at Georgia Ports Authority in Savannah on March 27. The stowaways — and their contraband — were apprehended almost immediately.

“We were pleased with the response of U.S. Customs and Border Patrol and our own personnel officers, who apprehended the three subjects and turned them over to customs,” said GPA executive director Curtis Foltz.

Georgia Ports Authority spokesman Robert Morris declined to comment further, citing an ongoing investigation.

He also declined to release the port police report on the incident or discuss the contraband, which a variety of sources indicated was illegal drugs.

The Morning News has learned that port police officials called a meeting with area ships’ agents last Wednesday to discuss such issues as TWIC (Transportation Workers Identification Card) serialization, vessel interface and recent security issues.

The Boston, a 930-foot container vessel with a Panamanian registry, was boarded Saturday at Garden City Terminal by the Coast Guard at the request of Customs and Border Patrol.

“We were asked to do a safety and security audit after a report of stowaways aboard,” said Coast Guard spokesman Bobby Nash. The Coast Guard intercepted no stowaways, he said.

Mary Carr Mayle

A walking guide to Savannah

When the commercial real estate market slowed, Paul Bland found himself with a little extra time. As a native Savannahian and somewhat of a history buff, he parlayed what comes naturally into a side hustle.

The book covers 12 of the city’s historic sites, as well as other guidebooks on the market, Shaver said it’s important to be accurate.

“The book isn’t just appealing to tourists, Bland said.

“It’s selling well at the Walgreens on DeRenne Avenue and several other locations around town.

“We think it’s helpful to locals, who want to be better hosts or just better information about the city they live in,” Bland said.

With tourism a lucrative local industry, Bland said, he wasn’t trying to make his 30-plus pages all-inclusive.

The book covers 12 of the city’s 22 remaining squares. “Not to say the other squares weren’t significant, but I wanted it to be concise as well as informative,” he said.

Joseph Marinelli, president of the Savannah Area Convention & Visitors’ Bureau, agreed.

“Touche,” said Bland, who added, “I wanted it to be concise as well as informative.”

Bland said the book comes up well by itself or can be used as a supplement with trolley tours.

With so many books about the city’s history as well as informative,” he said.

Arlinda Smith Broady

2nd Gulfstream G250 completes first flight

Savannah-based Gulfstream Aerospace has announced that a second Gulfstream G250 — the company’s newest mid-range business jet — successfully completed its first flight and has joined the G250 test program.

The G250 is designed and built by Gulfstream, a wholly owned subsidiary of General Dynamics (NYSE: GD), in collaboration with Israel Aerospace Industries (IAI) in Tel Aviv.

Flown by IAI chief test pilot Ronen Shapira, the plane — serial number 2002 — departed from Ben Gurion International Airport in Tel Aviv at 2:45 p.m. last Wednesday.

The aircraft flew for 1 hour and 57 minutes, reaching an altitude of 20,000 feet and a speed of 195 knots.

The first G250 to take to the skies — serial number 2001 — had its initial flight in December. It has amassed more than 70 flight hours and reached its maximum certified speed and altitude of Mach 0.85 and 45,000 feet.

David Dagan, corporate vice president and general manager of IAI’s commercial aircraft division, said, “We are absolutely thrilled.”

The first successful first flight was another indication of the collaborative companies’ steady progress toward certification.

Mary Carr Mayle

Job outlook sunny

Although state and local unemployment rates have increased, the number of residents seeking first-time unemployment benefits has decreased, indicating the economy is beginning to take a positive turn.

The preliminary unadjusted unemployment rate in metro Savannah is 9.3 percent in February, up one-tenth of a percentage point from a revised 9.2 percent in January, according to data released Thursday by the Georgia Department of Labor.

Meanwhile, the number of unemployed workers in the area stayed flat, increasing by only one person to 16,162 from 16,161 in January.

Michael Todd, director of Armstrong Atlantic State University’s Center for Regional Analysis, said, “Although the unemployment data shows we’re still in a decline, it’s at a substantial reduction... Joblessness is at a slowing pace, and as the numbers of lost jobs continues to get smaller, we should see stabilization in the third quarter or even as soon as the latter part of the second quarter.”

That could come sooner than many have thought possible, as a new second quarter began Thursday.

“The numbers are starting to trend in the right direction,” Todd said.

Arlinda Smith Broady