

## ***Mortgage Insurance Premiums***

You can treat amounts you paid during 2007 for qualified mortgage insurance as home mortgage interest. The insurance must be in connection with home acquisition debt, the insurance contract must have been issued after 2006, and you must have paid the premiums before 2008 for coverage in effect during 2007.

**Qualified mortgage insurance.** Qualified mortgage insurance is mortgage insurance provided by the Department of Veterans Affairs, the Federal Housing Administration, or the Rural Housing Service, and private mortgage insurance (as defined in section 2 of the Homeowners Protection Act of 1998 as in effect on December 20, 2006).

Mortgage insurance provided by the Department of Veterans Affairs is commonly known as a funding fee. If provided by the Rural Housing Service, it is commonly known as a guarantee fee. The funding fee and guarantee fee can either be included in the amount of the loan or paid in full at the time of closing. These fees can be deducted fully in 2007 if the mortgage insurance contract was issued in 2007. Contact the mortgage insurance issuer to determine the deductible amount if it is not reported in box 4 of Form 1098.

**Special rules for prepaid mortgage insurance.** If you paid premiums for qualified mortgage insurance that are properly allocable to periods after the close of the tax year, such premiums are treated as paid in the period to which they are allocated. No deduction is allowed for the unamortized balance if the mortgage is satisfied before its term (except in the case of qualified mortgage insurance provided by the Department of Veterans Affairs or Rural Housing Service).

**Limit on deduction.** If your adjusted gross income on Form 1040, line 38, is more than \$100,000 (\$50,000 if your filing status is married filing separately), the amount of your mortgage insurance premiums that are otherwise deductible is reduced and may be eliminated. See *Line 13* in the instructions for Schedule A (Form 1040) and complete the *Qualified Mortgage Insurance Premiums Deduction Worksheet* to figure the amount you can deduct. If your adjusted gross income is more than \$109,000 (\$54,500 if married filing separately), you cannot deduct your mortgage insurance premiums.

**Form 1098.** The mortgage interest statement you receive should show not only the total interest paid during the year, but also your mortgage insurance premiums paid during the year, which may qualify to be treated as deductible mortgage interest. See *Form 1098, Mortgage Interest Statement*, next.

<http://www.irs.gov/publications/p936/ar02.html#d0e2921>

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