# MORTGAGE INSURANCE TAX DEDUCTIBILITY

Recent legislation extended MI tax deductibility for borrower-paid mortgage insurance through the year 2021, for borrowers who itemize. Borrowers should consult a tax advisor regarding mortgage insurance tax deductibility. See disclaimer below.

## FAQS

**How does the mortgage insurance tax deduction work?**
Borrowers who itemize deductions can reduce their overall taxable income in the same manner as mortgage interest.

**Who qualifies for this itemized deduction?**
Households with adjusted gross incomes of $100,000 or less will be able to deduct 100% of their mortgage insurance premiums. Each additional $1,000 of adjusted gross household income reduces the deduction by 10%. The deduction phases out after $109,000. See the table below for details.

Married individuals filing separate returns with adjusted gross incomes of $50,000 or less will be able to deduct 50% of their mortgage insurance premiums. The IRS reduces the deduction by 5% for each additional $500 of adjusted gross income, phasing out after $54,500. See the table below for details.

The IRS does not restrict the deduction to first-time homebuyers.

### Adjusted Gross Income Limits

| Single OR Married, Filing Jointly | Allowable MI Premium Deduction | Married, Filing Separately | Allowable MI Premium Deduction |
|---|---|---|---|
| $0 - $100,000 | 100% | $0 - $50,000 | 50% |
| $100,000.01 - $101,000 | 90% | $50,000.01 - $50,500 | 45% |
| $101,000.01 - $102,000 | 80% | $50,500.01 - $51,000 | 40% |
| $102,000.01 - $103,000 | 70% | $51,000.01 - $51,500 | 35% |
| $103,000.01 - $104,000 | 60% | $51,500.01 - $52,000 | 30% |
| $104,000.01 - $105,000 | 50% | $52,000.01 - $52,500 | 25% |
| $105,000.01 - $106,000 | 40% | $52,500.01 - $53,000 | 20% |
| $106,000.01 - $107,000 | 30% | $53,000.01 - $53,500 | 15% |
| $107,000.01 - $108,000 | 20% | $53,500.01 - $54,000 | 10% |
| $108,000.01 - $109,000 | 10% | $54,000.01 - $54,500 | 5% |

**What types of mortgage loans qualify for the mortgage insurance tax deduction?**
Loans used for "acquisition indebtedness" — that is, money borrowed to buy, build or substantially improve a residence — are eligible, as long as the debt is secured by the same residence.

This includes purchase loans and refinance loans, up to the original acquisition indebtedness. (Money that homebuyers borrowed against the equity in a home or when refinancing a home for any reason other than to buy, build or substantially improve a residence is called "equity indebtedness.")

**Is deductibility applicable for all loan types?**
There is no differentiation among loan types.

**What types of properties are eligible for tax deductibility?**
The deduction applies to "qualified residences," as defined in the Internal Revenue Code. Generally, that includes the borrower's primary residence and a nonrental second home. As with mortgage interest, borrowers can deduct mortgage insurance premiums that they have paid on both their primary residence and one other qualified residence each year. Investor loans are not eligible.

**Are borrower-paid, single premiums, which the borrower pays up front in a lump sum, eligible for the deduction?**
Yes, borrower-paid, single-premiums are eligible for the deduction. Borrowers should consult with a professional tax advisor to determine the amount of the mortgage insurance premium eligible for the tax deduction.

**If borrowers have financed the single premium, are both the mortgage insurance premium and the interest tax-deductible?**
We believe that if the loan is for acquisition indebtedness, both the interest attributable to the entire loan balance and the allocated portion of the mortgage insurance premium are tax-deductible.

**If a lender or servicer issued a premium refund during the tax year, how would that affect eligibility and the amount of the mortgage insurance deduction?**
Borrowers are only permitted to deduct that portion of their mortgage insurance premium attributable to a tax year. If they drop mortgage insurance, and the lender paid a refund, the amount of the refund would reduce the amount of mortgage insurance premium attributable to that tax year and eligible to be deducted.

*Note: MGIC cannot provide tax advice. Taxpayers should consult their tax advisor to ascertain whether they are eligible to take this deduction. We based our answers to these questions on an interpretation of the language of the statute, the Joint Committee on Taxation's Technical Explanation of the statutory language, and present law. Follow IRS guidance interpreting the provision.*