

Triad Guaranty Insurance Corporation

MORTGAGE INSURANCE TAX DEDUCTIBILITY FREQUENTLY ASKED QUESTIONS

The answers to these questions are based on our interpretation of the language of the statute, by the interpretation of MICA (Mortgage Insurance Companies of America, the Joint Committee on Taxation's Technical Explanation of the statutory language, and present law. The Internal Revenue Service ("IRS") will issue guidance, most likely regulations, interpreting the new provision, and could reach different conclusions in the case of some of the issues raised. Borrowers should seek the assistance of their personal tax advisors with regard to the issues discussed below.

1. What is the most basic explanation of the Act?

That mortgage insurance premiums paid (or accrued) for taxpayers on qualified residences will be *treated as interest*, and therefore, be tax deductible.

2. What mortgages will be eligible?

Mortgage loans **closed** from January 1, 2007 through December 31, 2007, unless the statute is extended beyond the current tax year.

The closing date was chosen because it is the point at which all transaction become fixed, and changes to MI coverage that affect the borrower's premium payment can no longer be made.

MICA describes this as conforming to the **bright-line rule**, or **bright-line test**, which is a term generally used in law to describe a clearly defined rule or standard, comprised of objective factors, which leaves little or no room for varying interpretation.

3. Are only first-time homebuyers eligible for a tax deduction?

No, any borrower who is a taxpayer is eligible. Whether they will actually have a deduction available to them depends on, among other things:

- When they closed their mortgage
- The type of property
- Their adjusted gross income
- Whether or not they itemize deductions

4. What happens in subsequent years to borrowers who get the deduction for 2007?

Basically, there are two possible scenarios:

1. The deduction language is **not renewed**, or included as a provision for 2008 and only the premiums paid in (and allocated to) 2007 are tax deductible.
2. The more likely scenario is that the **tax deductibility is extended** into 2008 (and, hopefully, future years) and, if so:
 - a. Those borrowers who closed loans in 2007 will be able to continue deducting the MI premiums for the year of 2008, and also;
 - b. Borrowers closing loans in 2008 will have the same benefit available to them.

5. What is a “taxpayer” under the Act?

Under this Act, a taxpayer is a single person, a married couple filing jointly, or a married person filing a separate return, who has acquired indebtedness (i.e. closed a loan) for a qualified residence during 2007.

6. What is a “qualified residence”?

The term "qualified residence," means the principal residence of the taxpayer and one other residence of the taxpayer that is selected by the taxpayer for the taxable year and that is used by the taxpayer as a residence.

That would mean, for example, a primary residence and one second home, not a property financed or owned by the borrower solely as an investment property.

7. How much can a taxpayer make and still get the deduction?

It is based on the taxpayer’s adjusted gross income (AGI), not their total income.

The maximum adjusted gross income to be able to deduct the premium in full is \$100,000 (or \$50,000 for a married taxpayer filing an individual return).

Adjusted Gross Income is income (including wages, interest, capital gains, income from retirement accounts, alimony paid to you) adjusted downward by specific deductions (including contributions to deductible retirement accounts, alimony paid *by* you); but not including standard and itemized deductions.

8. What happens if the taxpayer’s adjusted gross income is more than \$100,000 (or \$50,000 in the case of a married taxpayer filing separately)?

The amount that may be treated as tax deductible interest is reduced by 10 percent for each \$1000 (\$500 for a married taxpayer filing separately), until the amount becomes zero at \$110,000 (or \$55,000 for a married taxpayer filing separately).

9. Does this Act apply to just Private MI?

No, it also applies to mortgage insurance provided by the VA, FHA and RHA.

10. Does this apply to only purchases?

No, it also applies to refinances. MICA has interpreted the terms of the Act to parallel the deduction for mortgage interest (since the MI is being treated as mortgage interest), which includes *refinancings up to the amount of the refinanced indebtedness.*

This would mean that the MI resulting from combo loans (1st and 2nd mortgages) refinanced into a single 1st mortgage would be tax deductible.

11. What if the borrower pays the premium up-front, as in a Standard or Level Annual, or a Single?

If the premium is covering a period that extends beyond the end of the taxable year (2007), the borrower may only deduct the amount that is applicable to the mortgage payments in that year. The remainder is allocated to the payments in the following year, or years, and will be deductible only if the act is extended beyond 2007.

If the borrower pays off the loan before all of the allocated MI has been deducted, no additional deduction is allowed to “use up” that MI.

12. Does the deduction apply to borrower- and lender-paid mortgage insurance?

No, only BPMI. To qualify for a tax deduction, the borrower must be making the MI payment. With LPMI, the lender is paying the MI.

13. How will the borrower get the necessary information for tax filing purposes?

A statement, such as the one detailing mortgage interest paid during the year, will be sent to the borrower by the mortgage servicer no later than January 31st of the following year (in this current case, by 1/31/2008).

14. What if the borrower’s MI is cancelled and they receive a refund?

For monthly premiums, it is not relevant since the refund would have occurred prior to a deduction, and the payment would be not reported on the borrower’s statement.

When an upfront premium is paid—as with a standard or level annual, or single—the borrower can only deduct the portion that is applicable to the tax year in which the mortgage payment was made. This is the amount that will appear on their year-end statement. If there is a refund, it is for the portion that has not yet been allocated, and, for which no deduction for has been taken.