Denny Andrews | Licensed Mortgage Originator #897584
425-753-2602 | denny@dennya.com | dennya.com

BORROWER & INVESTOR RESOURCE GUIDE

HOMEOWNERSHIP & REAL ESTATE TAX CONSIDERATIONS

Mortgage payments, closing costs and rental-property deductions | 2026 overview

Owning or financing real estate can create valuable tax opportunities, but the result depends on how the property is used, how the loan proceeds are used, whether the taxpayer itemizes deductions, and the taxpayer's individual circumstances.

What a deduction does: A deduction generally reduces taxable income; it is not a dollar-for-dollar tax credit. The actual value depends on the taxpayer's marginal tax rate and whether itemized deductions exceed the standard deduction.

This guide combines the practical mortgage-payment and closing-cost concepts most buyers ask about. It also corrects several rules that have changed since the original materials were written.

OWNER-OCCUPIED HOME: MONTHLY PAYMENT COMPONENTS

Payment component	General federal tax treatment	Important limitation
Mortgage interest	May be deductible on Schedule A.	Generally requires itemizing, a secured qualified home, and acquisition debt. Interest on post-12/15/2017 debt is generally limited to $750,000 ($375,000 MFS); qualifying older debt may retain the $1,000,000 limit.
Property taxes	May be deductible as state and local taxes on Schedule A.	For 2026, the combined SALT limit is $40,400 ($20,200 MFS), subject to a high-income reduction and a statutory floor.
Mortgage insurance	Not currently deductible as a federal itemized deduction.	The prior mortgage-insurance-premium deduction expired; do not assume PMI is deductible.
Principal	Not deductible.	Principal reduces the loan balance and builds equity; it is not an interest expense.
Homeowners insurance / HOA dues	Generally not deductible for a personal residence.	A qualifying business or rental use may change the treatment of an allocable share.

2026 SALT reference: The federal 2026 cap is $40,400 ($20,200 if married filing separately). The cap begins to decrease above modified adjusted gross income of $505,000 ($252,500 MFS), but not below $10,000 ($5,000 MFS). State rules may differ.

Denny Andrews | Licensed Mortgage Originator #897584
425-753-2602 | denny@dennya.com | dennya.com

CLOSING-COST REFERENCE

OWNER-OCCUPIED PURCHASE CLOSING COSTS

Potential deductions, basis adjustments and costs that generally remain personal

Closing costs do not all receive the same tax treatment. Some may be currently deductible, some may be added to the property's basis, and others are neither deductible nor basis additions.

Item	Potential treatment	Key guidance
Prepaid mortgage interest	Potential current deduction	May be deductible as qualified home mortgage interest if the loan and taxpayer otherwise qualify and deductions are itemized.
Discount points / origination points	Current deduction or amortization	Purchase points may be deductible in the year paid only if all IRS tests are met. Otherwise, they are generally deducted over the loan term. Refinance points are usually amortized.
Buyer-paid real property taxes	Potential current deduction	The buyer's properly allocated share may be deductible if itemized, subject to the SALT limit.
Owner's title insurance, title search or abstract	Potential basis addition	Acquisition-related title costs may be added to the home's basis rather than deducted currently.
Survey, deed recording, transfer taxes, acquisition legal fees	Potential basis addition	Costs directly connected with acquiring the property may increase basis.
Appraisal, credit report, underwriting and processing	Generally not currently deductible	Costs incurred to obtain the loan generally are not added to the home's basis. Treatment can differ if a fee qualifies as points or relates to business/rental use.
Lender's title policy and other loan costs	Generally financing costs	Loan-acquisition costs are not automatically basis additions. Personal-use costs are generally nondeductible; business or rental treatment may involve amortization.
Home inspection, moving costs and personal insurance	Generally personal / nondeductible	These costs ordinarily do not create a federal income-tax deduction for a personal residence.

Important correction: The statement "all nondeductible closing costs increase basis" is too broad. IRS rules distinguish property-acquisition costs from loan-acquisition costs. Keep the final Closing Disclosure and itemized settlement statements so a tax professional can classify each charge.

POINTS: PURCHASE VS. REFINANCE

- Purchase points can sometimes be fully deductible in the year paid, but only when every applicable IRS test is satisfied—including customary local practice, use of the cash method, and use of the loan to buy or improve the main home.
- Refinance points generally must be deducted ratably over the life of the new loan. Special rules can apply to improvement proceeds or when a refinanced loan is paid off.

INVESTOR RESOURCE GUIDE

RENTAL & INVESTMENT PROPERTY TAX CONSIDERATIONS

Operating expenses, depreciation, financing costs and activity limitations

Rental-property rules differ from the rules for a personal residence. The business purpose, ownership structure, personal-use days, participation level and use of loan proceeds can all affect the result.

Category	General treatment	Important note
Mortgage interest	Generally reported as a rental expense on Schedule E.	The deduction follows the use of the proceeds and may be limited by business-interest, passive-activity or other rules. Avoid assuming every dollar is automatically deductible.
Property taxes	Generally reported as a rental expense on Schedule E.	Rental property taxes are not treated as personal Schedule A taxes, but other limitations may apply.
Operating expenses	Ordinary and necessary rental costs may be deductible.	Examples may include insurance, management, advertising, utilities, HOA dues, professional fees, and qualifying repairs and maintenance.
Mortgage principal	Not deductible.	Principal reduces debt and increases equity; it is not an operating expense.
Improvements	Generally capitalized and depreciated.	A repair generally maintains the property; an improvement betterment, restoration or adaptation is generally capitalized.
Residential building depreciation	Generally 27.5 years under MACRS.	Only the depreciable building and qualifying improvements are depreciated—not land. Depreciation can affect gain and recapture at sale.
Acquisition closing costs	Generally added to property basis.	Examples may include certain title, legal, recording, survey and transfer costs associated with acquiring the property.
Loan points / financing costs	Often amortized over the loan term.	Loan-acquisition costs are not automatically deducted in full at closing.

PASSIVE ACTIVITY & LOSS LIMITATIONS

- Rental real estate is generally passive unless an exception applies. Losses may be limited by passive-activity, at-risk and basis rules.
- A taxpayer who actively participates may qualify for a special allowance of up to $25,000, subject to filing-status and modified-adjusted-gross-income limits. It is not an automatic $25,000 deduction.
- Disallowed passive losses may generally carry forward for use against future passive income or upon a qualifying disposition.

HOME OFFICE: SELF-EMPLOYED TAXPAYERS

- A qualifying area generally must be used regularly and exclusively for business, with limited statutory exceptions. Employees generally cannot claim the federal home-office deduction for employee work.
- Eligible self-employed taxpayers may use the regular method or the simplified method ($5 per square foot, up to 300 square feet), subject to income and other limitations.

REFERENCE & RECORDKEEPING

HOW TO REPORT AND WHAT TO RETAIN

A practical file checklist for homeowners and rental-property owners

COMMON FEDERAL FORMS AND SCHEDULES

Form / schedule	Common use
Schedule A (Form 1040)	Itemized home mortgage interest and qualifying state and local taxes for a personal residence.
Schedule E (Form 1040)	Rental income and ordinary rental expenses.
Form 4562	Depreciation and amortization, when required.
Form 8582	Passive activity loss limitations, when applicable.
Form 8829	Regular-method business use of home expenses for qualifying self-employed taxpayers.

DOCUMENTS TO KEEP

- Final Closing Disclosure, settlement statement and all loan-fee detail.
- Form 1098, annual mortgage statements and property-tax records.
- Purchase contract, deed, title documents, surveys and legal invoices.
- Receipts and invoices for capital improvements, repairs and rental expenses.
- Depreciation schedules, prior tax returns and records supporting property/land allocation.
- Refinance closing statements and records showing how loan proceeds were used.

Annual review recommended: Tax law changes frequently. Review this guide and your records with a qualified CPA, enrolled agent or tax attorney each year—especially after a purchase, refinance, conversion to rental use, major improvement or sale.

KEY IRS REFERENCES

- Publication 936 — Home Mortgage Interest Deduction: irs.gov/publications/p936
- Publication 530 — Tax Information for Homeowners: irs.gov/publications/p530
- Publication 551 — Basis of Assets: irs.gov/publications/p551
- Publication 527 — Residential Rental Property: irs.gov/publications/p527
- Publication 587 — Business Use of Your Home: irs.gov/publications/p587
- Publication 925 — Passive Activity and At-Risk Rules: irs.gov/publications/p925
- Topic No. 504 — Home Mortgage Points: irs.gov/taxtopics/tc504
- 2026 SALT correction to Form 1040-ES: irs.gov/forms-pubs/correction-to-state-and-local-income-tax-deduction-amount-in-the-2026-form-1040-es

Important disclosure: This guide is for general educational purposes only and is not tax, accounting, investment or legal advice. C2 Financial Corporation and Denny Andrews do not provide tax advice. Rules may vary based on facts, filing status, state law and future legislation. Consult a qualified tax professional before relying on any deduction or tax treatment. Information reviewed through August 13, 2026.

Professionally,

Denny Andrews
Mortgage Originator NMLS #897584
Branch NMLS #1961448 | C2 Financial Corporation NMLS #135622
425-753-2602 | denny@dennya.com | dennya.com