The Attractive Tax Break for Home Loans

So, you've decided on the house, you've researched your mortgage product options, and you know which product you need. Have you taken into consideration the tax advantages that are being touted as an attractive benefit of the interest only loan?

No, you haven't. Nor have very many of the consumers out there shopping for mortgage financing. The impact their mortgage might have on their tax return, hasn't crossed their mind, until they read the ads from the mortgage companies that are advertising the interest only loan option. Wow, John Q. Consumer says, didn't realize it would be such a great tax benefit, sign me up! Do you suppose he's really going to benefit from an interest only loan, when it's time to file his tax return?

Probably not, nor did he stop to even think about the situation. The plain fact is, many consumers assume these ads are gospel, especially since they're being run by a mortgage company, they must tell the truth. And they do, just not the truth as it applies to every situation. Every situation in this case, being the average consumer shopping for a mortgage loan, is probably not going to get that much benefit from the tax deduction that comes along with their mortgage interest payments. Not enough to justify the equity they're giving up in return. Or the years of extended mortgage payments when it's time to refinance because they can't afford the larger payment of principal and interest.

How do you determine if you have an attractive tax break? What determines attractive at your house? At mine, any form of a refund warrants the term attractive. Do these loans increase your refund? On average the increased refund dollar, based on the itemized deduction portion of the return, is so small it doesn't even warrant a measure.

Many of these mortgage companies play on the ignorance of the public at large, especially when it comes to their tax situation. This is simply because the vast majority of consumers have no way to affirm or deny the claim. So, is there an attractive tax break waiting on the consumer that uses the interest only loan financing? Probably not.

The interest only loan and the amount of interest you can deduct on your tax return are one and the same; the concern for the average consumer is the total dollar value they get to take off their tax return. Quite often, the deductions for the consumer aren't enough to contribute to the bottom line, or the adjusted gross income. Higher dollar amounts mean a higher possibility of a greater deduction.

That would be the only advantage to the interest only loan as far as the taxpayer is concerned, unless they use the money saved from the interest only loan to fund a 401k, an IRA, or an MSA (that's a topic for a completely different paper). The interest only loan is sold to the consumer as a way to afford more house, pay off credit card debt, or provide a means to fund a savings of some kind, and that's true, it can be used for that purpose. And if you're considering paying off those high interest credit cards, the interest you're charge on the interest only loan is deductible, while the credit cards are not; just make sure you don't turn around and use those credit cards again, putting yourself right back where you started from, just with more interest and less house equity.

The interest only loan is a great tool, when used by the right people, in the right situation. For the average consumer and long-term homeowner, unless you think a better deduction on your tax return is worth the forfeiture of equity in your home, you'd better think twice before financing with an interest only loan option.

Source: http://www.articlecircle.com

About the Author

John Williams writes about interest only home loans at http://www.interestonlys.com