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## Extra payments could cut tax bill

### There are some pitfalls to be avoided when paying more on mortgage

**By Kay Bell, bankrate.com**  
**December 9, 2005**

A little year-end attention to your mortgage could lower your upcoming Internal Revenue Service bill.

Unlike rent, which you pay beforehand (i.e., your Jan. 1 bill covers your stay in the rental unit for that coming month), your mortgage payments are made at the end of your occupancy period. That means your Jan. 1 mortgage statement represents interest for the month of December, making it a tax-break-eligible bill for this year. By accelerating that payment even by just a day (to Dec. 31), you get an additional deduction for the interest paid.

Make sure you don't cut it too close in making the early payment. Get the check in the mail in plenty of time to arrive at your lender by year's end. If you pay online, be sure you make the electronic transaction in time to have it credited to your 2005 payment amount. That way, the added interest will show up on the annual statement (usually a Form 1098 or an IRS-acceptable substitute) you'll get from your lender, in late January, detailing your deductible mortgage activity.

Some tax professionals say you can simply make your extra mortgage payment late this month with a check dated Dec. 31 and count it toward your deductions.

However, if you actually get your payment to the bank by the last business day of the year (or a day or two early), the extra interest will show up on the lender's official paperwork. And that means no curious tax examiner will question any difference between the amount you claim on your Schedule A and what your lender reported

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(and copied to the IRS) on the 1098 form. If your year-end mortgage statement doesn't reflect the extra payment's interest, go ahead and deduct the correct amount on your tax return and attach a statement explaining why your number, not the lender's, is accurate.

If your mortgage holder pays your annual property tax bill from an escrow account, that also will be listed as a deductible home-related expense on your Form 1098. But if you, not your lender, pay your property tax bill, and it's due early next year, consider paying it in December, too. As with your mortgage interest, this payment -- and deduction -- will be shifted into this tax year.

A word -- actually, three words -- of warning about accelerating some tax payments: alternative minimum tax. This parallel tax system was devised more than 30 years ago to guarantee that wealthy filers paid their fair share to the IRS. But nowadays, more middle-class filers are finding the AMT applies to them, in large part because the alternate system isn't designed to keep up with inflation.

Under the AMT, some usually acceptable tax breaks, including real estate and personal property taxes, aren't allowed. Before you shift payment of extra taxes into this year, make sure you won't face an AMT bill where they wouldn't be deductible. And be careful about accelerating deductions if you've earned a lot this year.

Taxpayers with adjusted gross incomes of more than \$145,950 (\$72,975 if married and filing separately) could find their itemized deductions amount reduced. There's a work sheet in the Form 1040 instruction booklet to help you determine whether you'll face the deduction limitation. If you do, it makes no sense to pull deductions you won't be able to fully use into this tax year.

And remember: While an early payment will give you 13 mortgage interest amounts to deduct this year, it means that on your 2006 taxes you'll only have 11 (or 12 if you pay a little early next December, too). So before you send off that check, make sure you really need the added deduction amount on this coming return.

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