

Canyon Lake Professionals Tax Resolution Center

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Mortgage Interest Deductibility on Non-U.S. Home

For you to take a home mortgage interest deduction, your debt must be secured by a qualified home. This means your main home or your second home. A home includes a house, condominium, cooperative, mobile home, house trailer, boat, or similar property that has sleeping, cooking, and toilet facilities.

The interest you pay on a mortgage on a home other than your main or second home may be deductible if the proceeds of the loan were used for business, investment, or other deductible purposes. Otherwise, it is considered personal interest and is not deductible.

Main home. You can have only one main home at any one time. This is the home where you ordinarily live most of the time.

Second home. A second home is a home that you choose to treat as your second home. No mention is made of the second home's location or nationality.

Generally, real estate property taxes paid on property owned is deductible on Schedule A of federal form 1040. Mortgage interest is deducted in the year paid on only first and second homes. This is the case when all of this is done within The United States of America.

The question is whether these amounts can be deducted on a second home, located in Canada or Mexico. Both the real estate taxes paid and the mortgage interest paid, on the second home located in Canada or Mexico, are deductible if the taxpayer agrees to be taxed on his/her worldwide income, which includes The United States of America and Canada. If the taxpayer has worldwide income, and does not include that as part of his/her taxable income, then the real estate taxes paid and the mortgage interest paid, on the second home located in Canada or Mexico, are not deductible.

Don Stacy, M.B.A.
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If the taxpayer has no income outside the United States of America, then the following argument can be made. Most individual income tax provisions specify citizenship, or permanent residency, not only in The United States of America, but also in countries contiguous to The United States of America, such as Mexico and Canada. Therefore, utilizing this argument, the real estate taxes and mortgage interest expense paid, for the second home located in Canada or Mexico, are deductible.

Remember the words of Judge Learned Hand, Justice, Appellate Court of the United States:

"Over and over again courts have said there is nothing sinister in so arranging one's affairs to keep taxes as low as possible. Everybody does do, rich or poor, and all do right, for nobody owes any public duty to pay more tax than the law demands; taxes are enforced exactions, not voluntary contributions."

Sincerely,



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