HOME MORTGAGE INTEREST

At the federal level, you can generally deduct home mortgage interest on your first $1,000,000 of debt if:

- You itemized your deductions
- The mortgage is a "secured debt" on a "qualified home".

Since mortgage interest is deductible at the federal level as an itemized deduction, it is also excluded from taxable income at the State level.

"Secured Debt" means a debt instrument (such as a mortgage, deed of trust, or land contract) that:

- Makes your ownership in a qualified home security for payment of the debt,
- Provides, in case of default, that your home could satisfy the debt, and
- Is recorded or is otherwise perfected under any state or local law that applies.

In other words, your mortgage is a secured debt if you put your home up as collateral to protect the interests of the lender. If you cannot pay the debt, your home can then serve as payment to the lender to satisfy the debt.

"Qualified home" means:

- Primary residence or a second home.
- Includes a house, condominium, cooperative, mobile home, house trailer, boat, or similar property that has sleeping, cooking, and toilet facilities.

TIMESHARES

Two basic types: Deeded versus Right to Use.

- Deeded:

In a deeded timeshare, you either own your vacation unit for the rest of your life, for the number of years spelled out in your purchase contract, or until you sell it. Your interest is legally considered real property. You buy the right to use a specific unit at a specific time every year, and you may rent, sell, exchange, or bequeath your specific timeshare unit. You and the other timeshare owners collectively own the resort property.

- Right to Use:

In this option, a developer owns the resort, which is made up of condominiums or units. Each condo or unit is divided into “intervals” — usually weeks. You purchase the right to use an interval at the resort for a specific number of years — typically between 10 and 50 years. The interest you own is legally considered personal property. The specific unit you use at the resort may not be the same each year. In addition to the price for the right to use an interval, you pay an annual maintenance fee that is likely to increase each year.

HOW THE HOME MORTGAGE INTEREST DEDUCTION AND TIMESHARES FIT TOGETHER

Deeded timeshares can be “qualified homes” for purposes of the home mortgage interest deduction.

- They are considered second homes because they are typically condominiums, or similar property, that have sleeping, cooking, and toilet facilities.
- The debt used to purchase these interests is typically “secured debt” -- a mortgage or other instrument that is recorded and that can be foreclosed.
- IRS rules specifically say that time-share interests qualify for the home mortgage interest deduction if they otherwise meet the qualifications.

Some vacation clubs and major resorts sell deeded timeshares with point systems. A consumer purchases a deeded interest plus a corresponding amount of points. The points can be spent on a stay in the deeded property, or on other properties owned by the club. Each year, the owner/member receives a new allotment of points, that may be spent or saved.

- This variant of the deeded interest was established in 1991 by the Disney Vacation Club.
- Today it is a format used by larger resort companies such as the Hilton Grand Vacations Company, the Marriott Vacation Club, and the Hyatt Residences Club.