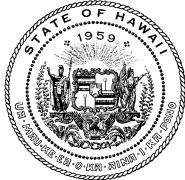


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January 6, 2021

DEPARTMENT OF TAXATION ANNOUNCEMENT NO. 2021-01

RE: Supplemental Instructions for the Mortgage Insurance Premiums Itemized Deduction

Federal Public Law 116-94 extended Internal Revenue Code (IRC) section 163(h)(3)(E) through December 31, 2020, retroactive to January 1, 2018. Act 13, Session Laws of Hawaii 2020, conformed Hawaii Income Tax Law to the extension of IRC section 163(h)(3)(E), as amended. The deduction is allowed retroactively from January 1, 2018 to December 31, 2020. IRC section 163(h)(3)(E) allows mortgage insurance premiums paid in connection with acquisition indebtedness to be deducted as qualified residence interest, subject to a phase-out.

The following instructions on how to calculate the deduction for mortgage interest premiums were inadvertently omitted from the 2020 Form N-11 instructions and worksheets. Please follow these instructions to properly calculate the deduction.

For taxpayers filing Form N-11, the deduction for mortgage interest premiums and other deductible interest will be added together in Worksheet A-3 in the [2020 Form N-11 Instructions](#) and reported on Form N-11, line 21c.

Mortgage Insurance Premiums

Enter the qualified mortgage insurance premiums you paid under a mortgage insurance contract issued after December 31, 2006, in connection with home acquisition debt that was secured by your first or second home. Box 5 of federal Form 1098 may show the amount of premiums you paid in 2020. If you and at least one other person (other than your spouse if filing jointly) were liable for and paid the premiums in connection with the loan, and the premiums were reported on the other person's federal Form 1098, report your share of the premiums on line 10 of Worksheet A-3.

Qualified mortgage insurance is mortgage insurance provided by the Department of Veterans Affairs, the Federal Housing Administration, or the Rural Housing Service (or their successor organizations), and private mortgage insurance (as defined in section 2 of the Homeowners Protection Act of 1998 as in effect on December 20, 2006).

Mortgage insurance provided by the Department of Veterans Affairs and the Rural Housing Service is commonly known as a funding fee and guarantee fee respectively. These fees can be deducted fully in 2020 if the mortgage insurance contract was issued in 2020. Contact the mortgage insurance issuer to determine the deductible amount if it is not included in box 5 of federal Form 1098.

Limit on amount you can deduct. You cannot deduct your mortgage insurance

premiums if your Hawaii adjusted gross income is more than \$109,000 (\$54,500 if married filing separately). If your Hawaii adjusted gross income is more than \$100,000 (\$50,000 if married filing separately), your deduction is limited and you may use the Mortgage Insurance Premiums Deduction Worksheet in the instructions to federal Form 1040 to figure your deduction. In the computation, however, the Hawaii adjusted gross income amount must be used.

Prepaid mortgage insurance premiums. If you paid qualified mortgage insurance premiums that are allocable to periods after 2020, you must allocate them over the shorter of:

- The stated term of the mortgage, or
- 84 months, beginning with the month the insurance was obtained.

The premiums are treated as paid in the year to which they are allocated. If the mortgage is satisfied before its term, no deduction is allowed for the unamortized balance. See federal Publication 936 for details. The allocation rules, explained earlier, do not apply to qualified mortgage insurance provided by the Department of Veterans Affairs or the Rural Housing Service (or their successor organizations).

For taxpayers filing Form N-15, please follow the instructions above, but instead of using Worksheet A-3, please calculate the deduction by including it on line 11 of Worksheet NR-3 or line 19 of Worksheet PY-3 in the [2020 Form N-15 Instructions](#). The deduction for mortgage insurance premiums and other deductible interest will be reported together on Form N-15, line 38c.

Tax forms and information are available on the Department's website at tax.hawaii.gov. Additional information is available by calling the Technical Section at (808) 587-1577, or by email at tax.technical.section@hawaii.gov.

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