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## *Newsletter*

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**FEBRUARY 2011**

### **Note these tax deadlines**

- **February 15** – Deadline for providing Forms 1099-B and 1099-S to recipients.
- **February 28** – Payers must file 2010 information returns (such as 1099s) with the IRS. (Electronic filers have until March 31 to file.)
- **February 28** – Employers must send 2010 W-2 copies to the Social Security Administration. (Electronic filers have until March 31 to file.)
- **March 1** – Farmers and fishermen who did not make 2010 estimated tax payments must file 2010 tax returns and pay taxes in full.
- **March 15** – 2010 calendar-year corporation income tax returns are due.

### **New law delays return filing**

If you itemize deductions or claim any of three restored deductions (for state and local sales tax, higher education tuition, or educator expenses), you must wait until mid to late February to file your 2010 tax return. The IRS must reprogram its computers to handle the changes made to these items by the *2010 Tax Relief Act* passed in late December.

### **2011 mileage rates released**

The IRS has released adjustments to the mileage rates that can be used for business driving, driving for medical or moving purposes, or charitable driving. Effective January 1, 2011, the standard mileage rates for the use of a car, van, pickup, or panel truck will be 51¢ per mile for business miles, 19¢ for medical or moving purposes, and 14¢ for charitable driving.

# With today's lower mortgage interest rates, is it time to refinance?

Mortgage interest rates are at historic lows. According to the Mortgage Bankers Association, the average interest rate for 30-year, fixed-rate mortgages dropped to 4.25% in September, 2010, and the average rate for 15-year mortgages fell to 3.73%. These are the lowest rates in almost 50 years.

If you're currently paying mortgage interest at a higher rate, you may be tempted to refinance your existing mortgage, even if you already refinanced once or twice before. But should you do it? The decision may not be as simple as it first seems.

Comparing interest rates is not enough. Here are some other factors to consider before you refinance.

- **Compare apples to apples.** Always request a good-faith cost estimate from any lender. This report should disclose all the fees and closing costs, such as points, credit report fees, inspection fees, private mortgage insurance, and appraisal fees. Use this information to evaluate competing loan proposals.
- **Calculate your breakeven period.** This is the length of time it takes you to recover the costs a lender typically charges to refinance your mortgage. To do this, divide your refinancing costs by your monthly savings (your current loan payment minus your new loan payment). If you plan on selling your home in the near future, refinancing may not save you money because it usually takes several years to recover refinancing costs through a lower monthly payment.
- **Check for prepayment penalties.** Before you pay off your existing loan, check for an early payment penalty clause. Your note agreement will spell out the exact terms of the prepayment penalty, if any, or you can check with your lender. A prepayment penalty adds to your refinancing costs and will lengthen your breakeven period.
- **Analyze the loan term.** To save interest, avoid stretching out your total loan period when you refinance. Let's say you've been paying for ten years on a 30-year loan. If you take out a new loan with a 30-year term, you will increase your total payoff period to 40 years. Instead, consider making your new loan term coincide with the remaining term of your old loan (in this example, 20 years). Another alternative is to continue making the same monthly payment toward your new 30-year loan. If you do that, you'll pay off your loan in a shorter period of time. This could save you a substantial amount of interest.
- **Take taxes into account.** In evaluating a refinancing, don't overlook the potential tax deductions.
- *Loan points.* Most lenders charge points, also known as a loan origination fee, on home loans. If you itemize deductions on your tax return, you can generally deduct points paid on a refinancing, but not all in the first year. Instead you must spread your deduction pro rata over the life of the new mortgage. To qualify, paying points must be an established practice in your area, and the amount paid can't be more than what is normally charged in the area.
- If you've refinanced in the past, you could be eligible for another deduction. When you pay off a prior refinancing, you can immediately deduct any remaining points from the previous mortgage.
- If you refinance to get a lower interest rate or shorter loan term and also to tap your equity to make improvements to your home, points attributable to the home improvement portion can be deducted immediately. Any remaining points must be deducted pro rata over the loan's term.
- *Other deductions.* If the lender charges a prepayment penalty for paying off the previous loan early, you can generally deduct the amount paid as interest. Most other closing costs, such as appraisal or title insurance fees, are not deductible. However, you should bring your loan documents to your tax appointment because there could be additional deductions.

Other factors may also come into play. For instance, after you refinance, you may have to adjust your tax withholding or estimated tax payments to reflect a lower interest deduction. And lenders now require more detailed financial information and documentation. We can help you with the paperwork and with making the best choices in your particular circumstances.