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Investment interest. Generally, investment interest is interest (including amortizable bond premium on taxable bonds acquired after October 22, 1986, but before January 1, 1988) that is paid or incurred on indebtedness that is properly allocable to property held for investment. Investment interest does not include any qualified residence interest, or interest that is taken into account under section 469 in figuring income or loss from a passive activity.

Generally, net investment income is the excess of investment income over investment expenses. Investment expenses are those expenses (other than interest) allowable after application of the 2% floor on miscellaneous itemized deductions.

The amount of the investment interest deduction may be limited. Use Form 4952, Investment Interest Expense Deduction, to figure the allowable investment interest deduction.

If you must complete Form 4952, check the box on line 10 of Form 1041 and attach Form 4952. Then, add the deductible investment interest to the other types of deductible interest and enter the total on line 10.

Qualified residence interest. Interest paid or incurred by an estate or trust on indebtedness secured by a qualified residence of a beneficiary of an estate or trust is treated as qualified residence interest if the residence would be a qualified residence (that is, the principal residence or the secondary residence selected by the beneficiary) if owned by the beneficiary. The beneficiary must have a present interest in the estate or trust or an interest in the residuary of the estate or trust. See Pub. 936, Home Mortgage Interest Deduction, for an explanation of the general rules for deducting home mortgage interest.

See section 163(h)(3) for a definition of qualified residence interest and for limitations on indebtedness.

Qualified mortgage insurance premiums. Enter (on the worksheet below) the qualified mortgage insurance premiums paid under a mortgage insurance contract issued after December 31, 2006, in connection with qualified residence acquisition debt that was secured by a principal or secondary residence. See *Prepaid mortgage insurance* below if the estate or trust paid any premiums allocable after 2009. If at least one other person was liable for and paid the premiums in connection with the loan, and the premiums were reported on Form 1098, include the estate's or trust's share of the 2009 premiums on the worksheet below.

Qualified mortgage insurance is mortgage insurance provided by the Department of Veterans Affairs, the Federal Housing Administration, or the Rural Housing Service, 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 2009 if the mortgage insurance contract was issued in 2009. Contact the mortgage insurance issuer to determine the deductible amount if it is not included in box 4 of Form 1098.

Prepaid mortgage insurance. If the estate or trust paid mortgage insurance premiums allocable to periods after 2009, such premiums must be allocated 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 Pub. 936 for details. These allocation rules do not apply to qualified mortgage insurance provided by the Department of Veterans Affairs or the Rural Housing Service.

Limit on the amount that is deductible. The estate or trust cannot deduct mortgage insurance premiums if the estate's or trust's AGI is more than \$109,000. If the estate's or trust's AGI is more than \$100,000, its deduction is limited and you must use the worksheet below to figure the deduction. See *How to figure AGI for estates and trusts* on page 21 for information on figuring AGI.

Line 11—Taxes

Enter any deductible taxes paid or incurred during the tax year that are not deductible elsewhere on Form 1041. Deductible taxes include the following.

- State and local income taxes. You can deduct state and local income taxes unless you elect to deduct state and local general sales taxes. You cannot deduct both.
- State and local general sales taxes. You can elect to deduct state and local general sales taxes instead of state and local income taxes. Generally, you can elect to deduct the actual state and local general sales taxes (including compensating use taxes) you paid in 2009 if the tax rate was the same as the general sales tax rate. However, sales taxes on food, clothing, medical supplies, and motor vehicles are deductible as a general sales tax even if the tax rate was less than the general sales tax rate. Sales taxes on motor vehicles are also deductible as a general sales tax if the tax rate was more than the general sales tax rate, but the tax is deductible only up to the

the end of its tax year

Qualified Mortgage Insurance Premiums Deduction Worksheet

Keep for Your Records



1. Enter the total premiums the estate or trust paid in 2009 for qualified mortgage insurance for a contract issued after December 31, 2006	1. _____
2. Enter the estate's or trust's AGI	2. _____
3. Enter \$100,000	3. _____
4. Is the amount on line 2 more than the amount on line 3? <input type="checkbox"/> No. The deduction is not limited. Include the amount from line 1 above on Form 1041, line 10. Do not complete the rest of this worksheet. <input type="checkbox"/> Yes. Subtract line 3 from line 2. If the result is not a multiple of \$1,000, increase it to the next multiple of \$1,000. For example, increase \$425 to \$1,000, increase \$2,025 to \$3,000, etc.	4. _____
5. Divide line 4 by \$10,000. Enter the result as a decimal. If the result is 1.0 or more, enter 1.0	5. _____
6. Multiply line 1 by line 5	6. _____
7. Qualified mortgage insurance premiums deduction. Subtract line 6 from line 1. Enter the result here and include the amount on Form 1041, line 10	7. _____