• Underpayments of federal, state, or local income taxes.

Interest that is paid or incurred on indebtedness allocable to a trade or business (including a rental activity) should be deducted on the appropriate line of Schedule C (or C-EZ), E, or F (Form 1040), the net income or loss from which is shown on line 3, 5, or 6 of Form 1041.

Types of interest to include on line 10 are:

1. Any investment interest (subject to limitations—see below);
2. Any qualified residence interest (see later); and
3. Any interest payable under section 6601 on any unpaid portion of the estate tax attributable to the value of a reversionary or remainder interest in property for the period during which an extension of time for payment of such tax is in effect.

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 the end of its tax year, 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 22 for information on figuring AGI.

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?

☐ **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.

☐ **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.** ______