

Mortgage Refinance in 2025? These Tax Breaks Can Boost Your Savings

Refinancing your mortgage comes with tax implications, but also opportunities to deduct certain expenses on your return.



A mortgage refinance can provide various advantages, like reducing monthly payments, shortening a loan term, switching to a fixed-rate mortgage, or accessing cash for home renovations or other expenses.

These benefits have become particularly attractive to homeowners recently as anticipation surrounding the interest rate cut by the Federal Reserve in September drove down mortgage rates. And that led to a surge of refinancing applications and the strongest week of borrower demand in decades, according to the Mortgage Bankers Association (MBA).

“Homeowners with larger loans jumped first,” said Mike Fratantoni, MBA’s SVP and Chief Economist, regarding their weekly survey of mortgage applications for the week ending Sept. 12

. “The average loan size on refinances reached its highest level in the 35-year history of our survey.”

But as mortgage rates slide, homeowners considering a refinance should be aware of associated tax implications to maximize any potential benefits. Here's more to know.

Are cash-out refinances considered taxable income?

A cash-out refinance enables homeowners to tap into their home equity, freeing up funds to cover expenses like college tuition, medical bills, or home improvements.

The best part of a cash-out refi is that you won't owe income taxes on the cash received. That's because you are borrowing against your home's equity, and [the IRS](#) expects that you'll pay those funds back to the bank.

Additionally, money received from a home equity line of credit (HELOC) or home equity loan is also tax-free.

Aside from being tax-free money in your pocket, a cash-out refinance could provide other tax advantages. Let's dive in.

Permanent cap on mortgage interest deduction

One of the most popular tax breaks some homeowners claim is a mortgage interest deduction when refinancing their home loan. However, you'll need to itemize using a [Schedule A](#) of Form 1040 to claim this deduction.

There's also a limit on the amount you can deduct on mortgage interest. President Donald Trump's recently enacted tax cuts and spending legislation, dubbed the 'big beautiful bill,' makes that cap permanent for refinanced and original home loans. But there are income limits.

For 2025 and onward, you can deduct mortgage interest on the first:

- \$750,000 if single or filing jointly

- \$375,000 if married filing separately

Tax-deductible home improvements for a cash-out refi

There are also other cash-out refinance tax rules that impact what you can claim as a tax deduction.

For instance, proceeds from the cash-out refi used to fund capital home improvements may qualify for a deduction. Capital improvements are permanent residential upgrades to enhance your property, outlined in [IRS Publication 523](#).

If you're a retiree in search of home improvement tax breaks, or have a family member who needs certain renovations done to make your home accessible. Some remodeling projects may also qualify for a medical expense deduction that you must itemize.

Some popular tax-deductible home improvements may include:

- Adding a swimming pool

- Implementing a new bedroom, office, or bathroom

- Installing home security systems

As a note, some tax breaks are expiring this year due to Trump's new tax law. For example, clean energy tax credits for home improvements are being eliminated sooner rather than later. That includes tax incentives some homeowners could claim for installing energy-efficient home improvements like solar panels.

Tax breaks for buying down your rate

When you're about to close on a mortgage refi, you have the option to buy down your rate via discount points.

Points paid during a traditional or cash-out refinance aren't deductible in full the year you pay them. Some exceptions may allow you to deduct points fully in the year paid, like if you use part of the refinanced proceeds to substantially improve your main home.

However, discount points paid during a mortgage refi are generally deducted over the life of the loan, so you'll have to plan accordingly.

So, what are mortgage points?

- Points are prepaid interest, which you pay upfront to lower the interest rate on your mortgage.
- One point equals 1% of the loan amount. That means that paying 1 point on a \$300,000 mortgage would cost you \$3,000, and could reduce your rate by about 0.25%.

To deduct mortgage points, you must meet all [IRS requirements](#), and they should be included as an itemized deduction claimed on IRS Form 1040, Schedule A.

Rental property tax deduction

Here's some good news: You can also claim tax deductions when refinancing a rental property, but they are generally amortized across your refinance loan term.

The rules are slightly different. For instance, when refinancing a primary residence, you can only deduct qualified points and interest, as well as certain renovations.

By contrast, refinancing a rental property also allows you to also deduct closing costs associated with obtaining a new mortgage, like loan origination fees. Other tax-deductible costs may include:

- **Application fee:** These are processing fees when applying for a refinance, and may include credit report fees as well.
- **Appraisal costs:** An appraisal for a rental property includes an analysis of potential rental income in your designated area.
- **Discount points:** As mentioned, these are points purchased to buy down the rate on your mortgage.
- **Mortgage insurance premiums:** A mortgage insurance premium can generally be deducted as a business expense in full the year they are paid.

Ensure you consult with a tax professional to determine what may qualify as a tax break when refinancing your rental property.

When to consider refinancing your mortgage

More than 81% of homeowners have a mortgage rate below 6%, according to data from Realtor.com. That's at least 4 in 5 U.S. homeowners with outstanding mortgages, who may not be interested in refinancing at today's rates.

However, refinancing a mortgage may be worth considering if interest rates have fallen considerably below the current loan rate. Some folks may also be interested in a refinance if they want to change their mortgage loan term, switch to a fixed-rate loan, or want to pull cash from their home equity to fund certain expenses.

All of these reasons may sway homeowners to refinance their mortgage, especially as market rates are on a downward trend.

Before refinancing your home loan, keep track of potential tax benefits you may claim, which are generally through itemized deductions. As mentioned, some may include deductions for qualifying home improvements or closing costs of the loan.

To get the best outcome, consult a trusted tax advisor who can guide you regarding potential tax breaks associated with home refinancing.

NYSUT NOTE: Refinancing your mortgage can feel tricky and overwhelming, but it doesn't have to. NYSUT Member Benefits Corporation-endorsed mortgage program [Mid-Island Mortgage Corp](#) can walk you through the options that are best for you — and may help you save up to \$2,700 in lender fees and closing costs. Contact them for more info today.

This article was written by and presents the views of our contributing adviser, not the Kiplinger editorial staff. You can check adviser records with the SEC or with FINRA.

About the Author

Gabriella Cruz-Martínez

Gabriella Cruz-Martínez is a finance journalist with 8 years of experience covering consumer debt, economic policy, and tax.

Gabriella's work has also appeared in Yahoo Finance, Money Magazine, The Hyde Park Herald, and the Journal Gazette & Times-Courier.

As a reporter and journalist, she enjoys writing stories that empower people from diverse backgrounds about their finances, no matter their stage in life.

Kiplinger

Kiplinger is part of Future plc, an international media group and leading digital publisher
© 2025 Future US LLC