

Home Mortgage Interest Deduction Limitations

The recently passed Tax Cuts and Jobs Act made changes in the rules for deducting home mortgage interest.

Under the old rules, you could deduct interest on up to a total of \$1 million of mortgage debt used to acquire or improve your principal residence and a second home. This is called "acquisition debt". For a married taxpayer filing separately, the limit was \$500,000. You could also deduct interest on home equity debt, i.e., other debt secured by the qualifying homes. Qualifying home equity debt was limited to \$100,000 (\$50,000 for a single or married taxpayer filing separately). The funds obtained via a home equity loan did not have to be used to acquire or improve the homes. So you could use home equity debt to pay for education, travel, health care, etc.

*Under the new rules, starting in 2018, **the limit on qualifying acquisition debt is reduced to \$750,000** (\$375,000 for a married taxpayer filing separately). However, for pre-existing acquisition debt incurred before Dec. 15, 2017, the \$1 million limit still applies. The higher limit will also apply to new debt arising from refinancing pre-Dec. 15, 2017 acquisition debt so long as the new debt resulting from the refinancing does not exceed the original debt amount. This means you can refinance up to \$1 million of pre-Dec. 15, 2017 acquisition debt in the future and not be subject to the reduced limitation if you already had \$1 million of acquisition debt on Dec. 15, 2017.*

*Starting in 2018, there is no longer a deduction for interest on **home equity debt** unless the funds were used to acquire or improve your principal residence or second home. Accordingly, if you are considering incurring home equity debt in the future, you should take this factor into consideration. And if you currently have outstanding home equity debt, be prepared to lose the interest deduction for it, starting in 2018. (You will still be able to deduct it on your 2017 tax return, filed in 2018.)*

Lastly, these changes last for eight years, through 2025. In 2026, the pre-Act rules are scheduled to come back into effect.

If you wish to discuss the impact of these rules on your particular situation, please email me at marc@crumbackassociates.com or give me a call at 443-286-7969