O'NEIL & STEINER, PLLC
MORTGAGE INTEREST DEDUCTION

For tax purposes mortgage debt is separated into three categories. Qualification is based on the details of the loan, not on the type of loan (home equity line of credits can qualify as acquisition debt, for example). Each loan is classified in the first category it qualifies under, as follows:

1. Grandfathered Debt –Mortgage loan proceeds incurred prior to 10/14/1987.
2. Acquisition Debt – Mortgage loan proceeds, incurred after 10/13/1987, used to buy, build, or improve the principal (or second home) used to secure the loan.
3. Home Equity Debt – All other mortgage loan proceeds as long as the total of the three categories did not exceed the fair market value of your home. These funds did not have to be re-invested in your home (debt consolidation, travel, etc.)

Prior to 2018, taxpayers could deduct interest on up to a total of $1 million of the first two categories. In addition, you could also deduct interest on up to $100,000 of the home equity debt (third category). For a married taxpayer filing separately, the limits were $500,000 on categories 1+2, and $50,000 on the third.

Under the Tax Cuts and Jobs Act (TCJA), beginning with tax year 2018, two changes were made that will further limit the deduction available for mortgage interest:

- Acquisition debt incurred beginning December 15, 2017, is subject to a reduced limit of $750,000 ($375,000 for a married taxpayer filing separately).
- Interest for home equity debt is no longer deductible (see definition #3 above). This applies to all home equity debt, regardless of when it was incurred.

Refinance loans incurred on or after 12/15/17 will be eligible for the higher limits if the new loan neither exceeds the prior loan balance, nor extends the repayment period.

Tax forms provided by lenders (Forms 1098, mortgage interest statement) reflect the total interest paid for the year. Since the lender will not maintain information sufficient to determine whether you exceed the limitations under current tax law it is each taxpayer's responsibility to determine, or provide their preparer with the information to determine, whether their deduction is limited.

In short, if you meet <u>both</u> of the following tests you will be able to claim an itemized deduction for all of your mortgage interest:

a) All proceeds from loans incurred after 10/14/1987 were used to buy, build or improve the principal residence or second home that was used to secure the loan (Form 1098, box 8).
b) The total of the balances of your mortgages did not exceed $750,000 during the year.
   ($1 million if all debt was incurred before 12/15/17)   (If filing as MFS $375k/$500k).

If one, or both, of these is not true we will need to schedule a time to discuss your loans in greater detail. Please call Nickie, our clerk, to schedule a "Mortgage Interest Consultation" for a time that fits your schedule.

As always, please don't hesitate to contact our office if you have questions about your taxes.