O'NEIL & STEINER, PLLC
MORTGAGE INTEREST DEDUCTION

One of the changes that we anticipate impacting taxpayers beginning with tax year 2018 are the new limitations on the 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 –Mortgages incurred prior to 10/14/1987.
2. Acquisition Debt – Mortgage loans, after 10/13/1987, if proceeds were 100% used to buy, build, or improve the principal or second home used to secure the loan.
3. Home Equity Debt – All other mortgages loans 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.)

Under the pre-Act rules, for tax years 2017 & earlier, you 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 Act, 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. 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 or visit our front desk to ask 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.