Examining Home Mortgage Interest and Home Equity Loan Interest Deductibility under the TCJA

The Tax Cuts and Jobs Act (TCJA) brought about changes in the rules for deducting qualified residential interest, i.e., interest on a mortgage.

Under the pre-Act rules, interest could be deducted on up to a total of $1 million of mortgage debt used to acquire a principal residence and a second home, i.e., acquisition debt. For a married taxpayer filing separately, the limit was $500,000. Interest could also be deducted on home equity debt, i.e., other debt secured by the qualifying homes. Qualifying home equity debt was limited to the lesser of $100,000 ($50,000 for a married taxpayer filing separately), or the taxpayer's equity in the home or homes (the excess of the value of the home over the acquisition debt). The funds obtained via a home equity loan did not have to be used to acquire or improve the homes, so home equity debt could be used to pay for education, travel, health care, etc.

Under the Act, starting in 2018, the limit on qualifying acquisition debt is reduced to $750,000 ($375,000 for a married taxpayer filing separately). However, for acquisition debt incurred before Dec. 15, 2017, the higher pre-Act limit applies.

The higher pre-Act limit also applies to debt arising from refinancing pre-Dec. 15, 2017 acquisition debt, to the extent the debt resulting from the refinancing does not exceed the original debt amount. This means one can refinance up to $1 million of pre-Dec. 15, 2017 acquisition debt in the future and not be subject to the reduced limitation.

Importantly, starting in 2018, there is no longer a deduction for interest on home equity debt. This applies regardless of when the home equity debt was incurred. Accordingly, if considering incurring home equity debt in the future, this factor should be taken into consideration. Anyone with outstanding home equity debt could potentially lose the interest deduction for it, starting in 2018. (It can still be deducted on a 2017 tax return, filed in 2018.)

Lastly, both of these changes last for eight years, through 2025. In 2026, the pre-Act rules are scheduled to come back into effect. So beginning in 2026, interest on home equity loans will be deductible again, and the limit on qualifying acquisition debt will be raised back to $1 million ($500,000 for married separate filers).

To discuss how these changes affect your particular situation and appropriate planning strategies, contact your Anchin Relationship Partner or a member of Anchin Private Client at 212.840.3456 or info@anchin.com.

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