

IS HOME MORTGAGE AND HOME EQUITY LOAN INTEREST STILL DEDUCTIBLE UNDER THE TAX CUTS AND JOBS ACT?

The Tax Cuts and Jobs Act (“TCJA”), signed into law by President Trump on December 22, 2017, makes changes to the rules for deducting qualified residential interest (i.e., interest on your home mortgage).

Under the pre-TCJA rules, you could deduct interest on up to a total of \$1 million of mortgage debt used to acquire your principal residence and a second home (i.e., acquisition debt). For a married taxpayer filing separately, the limit was \$500,000. In addition, you could deduct interest 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 you could use home equity debt to pay for education, travel, health care, etc.

Under the TCJA, 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 you can

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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 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. (However, you will still be able to deduct it on your 2017 tax return, filed in 2018.)

Finally, *both of these changes last for eight years, through 2025.* In 2026, the pre-TCJA 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).

We trust this information is helpful. If you would like to discuss how these changes affect your particular situation, and any planning moves you should consider in light of them, please contact us.

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