From the desk of
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Home Mortgage and Home Equity Loan Interest has changed under the new Tax law

Under the new tax act passed and signed by President Trump in December there is a new limit for mortgage interest that is deductible for qualifying acquisition debt for any purchases of a residence.

The new limitation has been reduced to $750,000 ($375,000 for a married taxpayer filing separately) starting as of January 1, 2018 for any home acquired after December 15, 2017.

For those with existing home mortgage debt the prior higher debt limits that were in existence continue to apply to any acquisition debt incurred on or before December 15, 2017, therefore nothing changes for those with existing mortgage debt.

The higher pre-Act limit also applies to debt arising from refinancing any debt prior to December 15, 2017 to the extent the debt resulting from the refinancing does not exceed the original debt amount.

Important to Note

This means if the debt on your combined primary residence, and secondary home is in excess of the new limitations you will still be allowed to refinance up to $1 million of pre December 15, 2017 acquisition debt in the future and will not be subject to the reduced limitation.

Under the pre Act rules a taxpayer was allowed to deduct interest on up to a total of $1 million of mortgage debt used to acquire a principal residence and a second home for acquisition debt.

For a married taxpayer filing separately the limit was $500,000.

A taxpayer was also allowed to deduct interest on home equity debt for other debt secured by the qualifying homes. This has changed, and going forward will no longer be deductible.

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 therefore allowing the mortgage interest deduction for the use of home equity debt to pay for education, travel, health care, and other personal expenses.

Home Equity Debt Mortgage Interest Denied as of January 1, 2018

Starting in 2018 the interest relating to home equity debt will no longer be a deduction for anyone.

This applies regardless of when the home equity debt was incurred.

Home equity interest up to the applicable limits can still be deducted on your 2017 tax return filed in 2018, but not thereafter.

These changes will be in effect for eight years through 2025. In 2026 the pre-Act rules is scheduled to come back into effect unless Congress changes this aspect of the law. Therefore beginning in 2026 interest on home equity loans will be deductible once again, and the limit on qualifying acquisition debt will be raised back to $1 million ($500,000 for married separate filers), although this is highly unlikely as the history of tax deductions once lost never seem to be returned.
