Limitations on Home Mortgage Interest Deductions under the New Tax Laws

Home mortgage interest deductions have new limitations under the recent tax law changes starting as of January 1, 2018 relating to home acquisition and home equity indebtedness.

The first limitation is based upon the limit for loans obtained in the acquisition to purchase, build or substantially improve a residence.

This type of debt is known as home acquisition debt.

There also exists another limit for loans secured by a qualified residence where the funds are used for other purposes, known as home equity debt.

Under the old law taxpayers where able to deduct interest on two categories of indebtedness secured by their residences, up to $1,000,000 in acquisition debt, and $100,000 in equity debt as it related to the interest charges thereto.

Acquisition indebtedness is used to acquire, construct, or substantially improve a residence and could not exceed $1,000,000 in regards to deductibility of the interest attached thereto.

The limitations as to acquisition debt is now as of January 1, 2018 a total of $750,000.

Home equity indebtedness is any debt other than acquisition indebtedness and is no longer deductible as of January 1, 2018 unless the debt is incurred for the purpose of substantially improving the residence, but the overall limit of $750,000 is the total amount of mortgage debt available including the original acquisition debt.

The interest charges attached to these types of debt is what is deductible up to the new limitations as to debt.

Home Acquisition Debt is any loan whose purpose is to acquire, to construct, or to substantially improve a qualified home. That debt must be secured by that home.

Taxpayers may deduct interest on the loan balance of up to $750,000 of home acquisition debt secured by a qualified primary or secondary residence. The limit is reduced to $375,000 for taxpayers who are married filing separately.

Home Equity Debt is any loan secured by a qualified residence whose purpose is other than to acquire, construct or substantially improve a qualified home but the interest relating to that debt is no longer deductible unless used for the improvement of the home.

Prior Mortgage Debt - the lower limits do not apply to home loans in existence prior to **December 15, 2017**, or to such existing loans that are later refinanced.

According to the new tax legislation in tax years beginning after 2025 the previous limitations of $1 million mortgage debt and $100,000 home equity debt are will return, but that is unlikely.

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