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Balance *sheet*

How Tax Reform Affects the Deduction for Mortgage and Equity Interest

By Timothy J. Gephart, CPA

Under the Tax Cuts and Jobs Act (the Act) there are things that may make your tax situation better and things that may make your tax situation worse. The change in the deduction of home mortgage interest will be negative to many people and will be a non factor to many people.

Under the pre-Act 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. You could also 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. and receive a tax deduction.

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

And, 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. You will still be able to deduct it on your 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). Also, with the increased standard deduction, it may be that you no longer will be itemizing your deductions and mortgage interest deductions may not play a part in your tax calculation at all.

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.

Items presented are not intended to be technically complete. Additional information may be required to make an informed decision.
You cannot rely upon this information for avoiding tax penalties.