PIECES OF THE PUZZLE

May 2018

2017 Tax Reform: IRS clarifies interest on home equity loans often still deductible

In an Information Release, IRS has announced that in many cases, taxpayers can continue to deduct interest paid on home equity loans under the recently enacted Tax Cuts and Jobs Act.

Background. Taxpayers may deduct interest on mortgage debt that is "acquisition debt." Acquisition debt means debt that is: (1) secured by the taxpayer's principal home and/or a second home, and (2) incurred in acquiring, constructing, or substantially improving the home. This rule hasn't been changed by the Tax Cuts and Jobs Act.

Under the Tax Cuts and Jobs Act, for tax years beginning after December 31, 2017 and before January 1, 2026, the limit on acquisition debt is reduced to $750,000 ($375,000 for a married taxpayer filing separately). The $1 million, pre-Tax Cuts and Jobs Act limit applies to acquisition debt incurred before December 15, 2017, and 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.

Under the Tax Cuts and Jobs Act, for tax years beginning after December 31, 2017 and before January 1 2026, there is no longer a deduction for interest on "home equity debt." The elimination of the deduction for interest on home equity debt applies regardless of when the home equity was incurred.

New guidance. In IR 2018-32, IRS said that despite the newly-enacted restrictions on home mortgages under the Tax Cuts and Jobs Act, taxpayers can often still deduct interest on a home equity loan, home equity line of credit (HELOC), or second mortgage, regardless of how the loan is labelled.

IRS clarified that the Tax Cuts and Jobs Act suspends the deduction for interest paid on home equity loans and lines of credit, ***unless they are used to buy, build or substantially improve the taxpayer's home that secures the loan***.

For example, interest on a home equity loan used to build an addition to an existing home is typically deductible, while interest on the same loan used to pay personal living expenses – such as credit card debts – is not. As under pre-Tax Cuts and Jobs Act law, for the interest to be deductible, the loan must be secured by the taxpayer's main home or second home (known as a qualified residence), not to exceed the cost of the home and meet other requirements.

If you have any questions, please feel free to contact us.

Source: Thomson Reuters/Tax & Accounting – Weekly Alert, 03/01/2018

Howard & Company
CERTIFIED PUBLIC ACCOUNTANTS, P.A.

4745 Sutton Park Court, Ste 102
Jacksonville, Florida 32224
Phone: (904) 421-0690 Fax: (904-421-0691)