¶220 Home Mortgage Interest Deduction

NEW LAW EXPLAINED

Deduction for home equity interest suspended and acquisition debt limits reduced for 2018 through 2025.—The itemized deduction for home mortgage interest (i.e., qualified residence interest) is temporarily limited to interest on acquisition debt for tax years beginning after December 31, 2017, and before January 1, 2026 (Code Sec. 163(h)(3)(F)(i)(**I**), as added by the Tax Cuts and Jobs). A taxpayer may not claim an itemized deduction for mortgage interest paid or accrued on any home equity debt of any qualified residence of the taxpayer for tax years beginning in 2018 through 2025.

COMMENT

The temporary suspension of the deduction for interest on home equity debt ends after 2025. Thus, a taxpayer may claim the deduction for tax years beginning in 2026.

Limitation on acquisition indebtedness. The maximum amount that may be treated as acquisition debt is also reduced to $750,000 ($375,000 if married filing separately) for tax years beginning after December 31, 2017, and before January 1, 2026 (Code Sec. 163(h)(3)(F)(i)(**II**), as added by the 2017 Tax Cuts Act). The reduction generally applies to any acquisition debt incurred after December 15, 2017. The maximum amount that may be treated as acquisition debt remains $1 million ($500,000 if married filing separately) for any acquisition debt incurred with respect to the taxpayer's principal residence on or before December 15, 2017 (Code Sec. 163(h)(3)(F)(i)(**III**), as added by the 2017 Tax Cuts Act). However, the acquisition debt incurred on or before December 15, 2017, reduces the $750,000/$375,000 limit to any acquisition debt incurred after December 15, 2017.

The $1 million ($500,000 if married filing separately) dollar limit will also continue to apply to a taxpayer who enters a binding written contract before December 15, 2017, to close on the purchase of a principal residence before January 1, 2018, so long as the residence is purchased before April 1, 2018 (Code Sec. 163(h)(3)(F)(i)(**I**V), as added by the 2017 Tax Cuts Act). Similarly, the higher limit continues to apply to any debt incurred after December 15, 2017, to refinance existing acquisition debt on the taxpayer's principal residence to the extent the amount of the debt resulting from the refinancing does not exceed the amount of the refinanced debt (Code Sec. 163(h)(3)(F)(iii), as added by the 2017 Tax Cuts Act). Thus, the maximum dollar amount that may be treated as acquisition debt on the taxpayer's principal residence will not decrease by reason of a refinancing. The exception for refinancing existing acquisition will not apply after: (1) the expiration of the term of the original debt; or (2) the earlier of the expiration of the first refinancing of the debt or 30 years after the date of the first refinancing.

Qualified principal residence debt. The $2 million ($1 million) limit on the exclusion of discharged qualified principal residence debt is not affected by the temporary reduction the limit of acquisition debt for home mortgage interest deduction (Code Sec. 163(h)(3)(F)(iv), as added by the 2017 Tax Cuts Act).

Effective date. The amendments made by this section apply to tax years beginning after December 31, 2017 (Act Sec. 11043(b) of the Tax Cuts and Jobs Act).