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Apr. 03, 2018

Reports of the demise of the mortgage interest deduction for home equity loans are greatly exaggerated.

Under the new Tax Cuts and Jobs Act (TCJA), the deduction for mortgage interest paid on "acquisition debt" is modified, while write-offs for interest paid on "home equity debt" are eliminated. But taxpayers can still squeeze through a loophole for certain home equity loans if the proceeds are used for home improvements. Initially, the validity of this technique was up for debate, but the IRS has approved the technique (IR-2018-32, 2/21/18).

For starters, you can only deduct mortgage interest on a loan secured by a qualified residence. This can be your primary residence or one other home such as a vacation home. Assuming you meet these requirements, the tax treatment depends on whether the loan is characterized as an acquisition debt or a home equity debt.

- An acquisition debt is a debt incurred to "buy, build or substantially improve" a qualified residence. Prior to the TCJA, you could deduct mortgage interest paid on up to $1 million of acquisition debt.
- Any other qualified debt, including most home equity loans and lines of credit, is considered to be a home equity debt. Under prior law, the deduction was limited to interest paid on the first $100,000 of home equity debt, regardless of how the proceeds were used.

But now the TCJA complicates matters. For loans made after December 15, 2017, the deduction threshold for acquisition debt is lowered from $1 million to $750,000. But interest deductions for prior loans are "grandfathered" under the new law, even if

the money for home improvements, you're converting a home equity debt into an acquisition debt because the proceeds are used to "substantially improve" a qualified residence. Therefore, interest paid on this new loan is deductible as long as you stay below the new $750,000 threshold for acquisition debt.

For example, suppose your existing mortgage on your principal residence is $500,000 and you borrow $100,000 to install in-ground pool, deck and landscaping. All of the interest you pay on the combined $600,000 of acquisition debt is still deductible if you itemize deductions.

Does it sound too good to be true? The new IRS Notice puts its stamp of approval on this innovative strategy. Make sure that your clients understand how the new rules work and provide the guidance needed to secure the maximum deduction.