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The new Tax Cuts and Jobs Act (TCJA) scales back or eliminates several itemized deductions, including deductions for qualified mortgage interest. Notably, interest paid on home equity debt is no longer deductible at all, effective in 2018. However, under a little-known "exception" to the rules, deductions may still be allowed for certain home equity loans used for home improvement purposes.

Now the IRS has clarified the tax treatment for home equity debt in a new press release (IR-2018-32, 2/21/18).

Prior to the TCJA, a taxpayer could deduct mortgage interest for a qualified residence on the first \$1 million of acquisition debt and the first \$100,000 of home equity debt. "Acquisition debt" is defined as a loan used to buy, build or substantially improve a qualified residence. Any other mortgage debt is "home equity debt." For these purposes, a qualified residence is your principal residence and one other home, such as a vacation home.

The TCJA lowered the threshold for acquisition debt from \$1 million to \$750,000 for debts incurred after December 15, 2017. (Interest payments under prior loans are grandfathered.) It also repeals the deduction for home equity debt, beginning in 2018. These changes are scheduled to sunset after 2025.

In other words, in the past you could deduct mortgage interest on the first \$100,000 of home equity debt, regardless of the purpose. Now you can't deduct interest on any home equity debt, unless the proceeds are used to substantially improve the residence. In that case, the debt is treated as an acquisition debt, subject to the rules discussed above.

Example: Say that you incurred an initial mortgage of \$500,000 when you bought

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The new IRS release also addresses issues where a taxpayer exceeds the new \$750,000 threshold for acquisition. To view the entire release, go to www.irs.gov/newsroom/interest-on-home-equity-loans-often-still-deductible-under-new-law.

Reminder: The new TCJA rules on mortgage interest generally don't affect 2017 returns being filed in 2018. Clients may deduct interest on up to \$100,000 of home equity debt even if the proceeds were used for personal reasons.

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