Abstract: Among the biggest tax perks of buying a home is the ability to deduct mortgage interest payments. But this deduction has undergone some changes recently, so taxpayers may need to do some catching up. This brief article explains how the tax break has changed.

Catching up with the home mortgage interest deduction

A home is the most valuable asset many people own. So, it's important to remain aware of the tax impact of homeownership and to carefully track the debt you incur to buy, build or improve your home — known as "acquisition indebtedness."

Among the biggest tax perks of buying a home is the ability to deduct your mortgage interest payments. But this deduction has undergone some changes recently, so you may need to do some catching up.

Before the passage of the Tax Cuts and Jobs Act (TCJA) late last year, a taxpayer could deduct the interest on up to $1 million in acquisition indebtedness on a principal residence and a second home. And this still holds true for mortgage debt incurred before December 15, 2017. But the TCJA tightens limits on the itemized deduction otherwise.

Specifically, for 2018 to 2025, it generally allows a taxpayer to deduct interest only on mortgage debt of up to $750,000. The new law also generally suspends the deduction for interest on home equity debt: For 2018 to 2025, taxpayers can't claim deductions for such interest, unless the proceeds are used to buy, build or substantially improve the taxpayer's principal or second home.

Step carefully if you own a second residence and use it as a rental. For a home to qualify as a second home for tax purposes, its owner(s) must use it for more than 14 days or greater than 10% of the number of days it's rented out at fair market value (whichever is more). Failure to meet these qualifications means the home is subject to different tax rules.

Please contact our firm for assistance in properly deducting mortgage interest, as well as fully understanding how the TCJA has impacted other aspects of personal tax planning.