

Abstract: The interest that homeowners pay on their home mortgages may provide a tax break in the form of the mortgage interest deduction. However, a taxpayer must itemize deductions on his or her tax return and follow a few other rules. This article provides some details.

Home's where a tax break might be

If you own a home, the interest you pay on your home mortgage may provide a tax break in the form of the mortgage interest deduction. However, you must itemize deductions on your tax return and follow a few other rules.

Acquisition debt

A personal interest deduction generally isn't allowed, but one type of interest that *is* deductible is interest on mortgage "acquisition debt." This means debt that's: 1) secured by your principal home and/or a second home, and 2) incurred in acquiring, constructing or substantially improving the home. You can deduct interest on acquisition debt on up to two qualified residences: your primary home and one vacation home or similar property.

The deduction for acquisition debt comes with a stipulation. From 2018 through 2025, you can't deduct the interest for acquisition debt greater than \$750,000 (\$375,000 for married filing separately taxpayers). So, if you buy a \$2 million house with a \$1.5 million mortgage, only the interest you pay on \$750,000 of the total debt is deductible. The rest is nondeductible personal interest.

Higher limits on the way

Beginning in 2026, you'll be able to deduct the interest for acquisition debt up to \$1 million (\$500,000 for married filing separately), barring any further legislative changes.

The higher \$1 million limit also applies to acquisition debt incurred before December 15, 2017, and to debt arising from the refinancing of pre-December 15, 2017, acquisition debt, to the extent the debt resulting from the refinancing doesn't exceed the original debt amount. Thus, taxpayers can refinance up to \$1 million of pre-December 15, 2017, acquisition debt, and that refinanced debt amount won't be subject to the \$750,000 limitation.

The limit on home mortgage debt for which interest is deductible includes both your primary residence and your second home, combined. Some taxpayers believe they can deduct the interest on \$750,000 for each mortgage. But if you have a \$700,000 mortgage on your primary home and a \$500,000 mortgage on your vacation place, the interest on \$450,000 of the total debt will be nondeductible personal interest.

"Home equity loan" interest

"Home equity debt," as specially defined for purposes of the mortgage interest deduction, means debt that is secured by the taxpayer's home, and *isn't* "acquisition indebtedness" (meaning it wasn't incurred to acquire, construct or substantially improve the home).

From 2018 through 2025, there's no deduction for interest on a home equity loan unless you use the loan proceeds to buy, build or substantially improve your main home or second home. Other requirements apply. Interest on the home equity loans that are used to pay personal living expenses, such as credit card debts, is not deductible.

More information

Your home is valuable in many ways. Contact us with questions or if you'd like more information about the mortgage interest deduction.