



DON'T TAX YOURSELF

A Publication of Bowditch & Dewey's Estate, Financial & Tax Planning Group

Tax Cuts and Jobs Act: Impact on Mortgage Interest Deductions

BY SCOTT C. CASHMAN • NOVEMBER 9, 2018

The Tax Cuts and Jobs Act of 2017 (“TCJA”) made substantial changes to the Tax Code of 1986 by reducing tax rates and “simplifying” tax compliance for many by significantly increasing the standard deduction and eliminating many itemized deductions. One change that will affect many taxpayers are the changes made concerning the mortgage interest deduction.

Prior to TCJA, the interest on mortgage debt used to acquire property was deductible on acquisition debt up to a maximum of \$1,000,000. TCJA reduced the maximum to \$750,000 for debt incurred after December 31, 2017. In areas with high real estate prices such as Boston, New York or Silicon Valley, homes can easily exceed this amount.

Another notable change was the deduction for home equity and home equity line of credit (“HELOC”) debt. Prior to TCJA, the interest on home equity or HELOC debt was deductible on up to \$100,000 of such debt, regardless of the way the proceeds were used. Many taxpayers have taken advantage of the equity in their homes by borrowing to consolidate other debts, pay for their children’s tuition, or pay for unexpected medical bills.

TCJA suspended the deduction for interest on home equity debt thru December 31, 2025. There is no grandfathering of debt, so for example, a family that took out a \$100,000 HELOC to help pay for their children’s tuition several years ago will no longer be able to deduct the interest paid on this loan. Worse – since HELOCs have variable interest rates – the rising interest rate environment we find ourselves in today has left families paying more, compounding the loss of the tax deduction on the interest paid.

However, the interest on some home equity debt may still be deductible. Taxpayers who used the proceeds of the home equity debt to improve their home may continue to deduct the interest. For example, a taxpayer who uses the proceeds to build an addition on their home will likely continue to be able to deduct the interest paid. In early 2018, because of the confusion surrounding the home equity deduction and what many thought was the hasty passage of TCJA, the IRS clarified and issued [guidance on the home equity interest deduction](#).

What is clear is the home equity debt that is used to improve your home will continue to be deductible. The real trick will be for those taxpayers who, either now or in the past, used home equity debt proceeds to not only improve their home but also for other purposes. In such cases, some of the interest may be deductible but the burden will be on the taxpayer to prove how the proceeds of the loan were spent. The taxpayer will have to maintain records tracing how the loan proceeds were used. Reasonable minds may differ on whether this “simplifies” compliance.