

## BE AWARE OF IRS LIMITS ON MORTGAGE INTEREST

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For most taxpayers, mortgage interest is one of the biggest, if not the biggest, tax deduction that they take.

But beware that there are limits on the amount of mortgage interest you are allowed to take, particularly if you own more than one home.

Home mortgage interest is deductible on Schedule A of your tax return if it is secured by your "qualified residence" – the principal or second residence of the taxpayers. The second residence is designated each year should the taxpayers own more than two homes.



For example, a couple might have a mortgage on their main home as well as a mortgage on a cottage they own in the country. They could write off the interest portion of both of the loans, provided they meet the criteria of two types of deductible residence interest – acquisition indebtedness and home equity indebtedness.

Acquisition indebtedness is basically the original mortgage on your home and a second residence. The mortgage must be secured directly by your home or second residence as collateral.

You can use the mortgage to buy, construct or substantially improve your home. You are limited to deducting interest paid on the first \$1 million of debt on your home and second residence, or \$500,000 for a married taxpayer filing a separate return.

The deduction for home equity indebtedness has two limitations. First, you are limited to deducting the interest on the first \$100,000 of the loan, or \$50,000 for a married taxpayer filing a separate return.

The second limitation requires the aggregate amount of the home equity loan not to exceed the qualified residence's fair market value minus the amount of acquisition indebtedness on the residence. In other words, the total amount of debt on the property cannot exceed the fair market value of the property.

With the way the tax law is presently structured, the maximum amount of acquisition and home equity indebtedness that you can incur and still write off the interest is \$1.1 million. The interest paid on the loan amount in excess of \$1.1 million would be treated as nondeductible personal interest.