

Deductibility of Home Mortgage Interest

Arthur Godfrey once proclaimed “I am proud to be paying taxes in the U.S. The only thing is – I could be just as proud for half the money.” Yeah, man. Whereas itemizing taxpayers were once able to deduct 100% of their home mortgage interest, repeated efforts to simplify our tax code have made things...complicated. Bottom line? Not all home mortgage interest is deductible. Here are the high points:

Your deduction is limited if all mortgages on your home exceed either the fair market value of your home or \$1 million (\$500,000 if you're married, filing separately). Your deduction may also be limited if your home-equity loans exceed \$100,000 (\$50,000 if you're married, filing separately). “Mortgage interest” is any interest you pay on a loan secured by your main or second home. The term “home” includes most primary or secondary dwellings having sleeping, cooking, and toilet facilities.

As long as your second home qualifies as your residence, it need not be the same home each tax year. Interest on mortgages taken against a main or a second home before October 14, 1987 remains fully deductible. If you borrow against your home for business or investment purposes, the resulting interest is attributed to the activity for which the loan proceeds were used – not mortgage interest. If you own rental property and borrow against it to buy a home, the interest does not qualify as mortgage interest because the loan is not secured by the home itself.

Pamela Olson, our Assistant Secretary for Tax Policy, was right, “Tax simplification is complicated stuff.”

Glenn Wessel is a CPA, a Chartered Financial Analyst charterholder, and a Certified Financial Planner™ practitioner. He operates a fee-only investment counsel practice in Asheville, North Carolina.