TRAPHAGEN FINANCIAL GROUP

Certified Public Accountants & Registered Investment Advisors

234 Kinderkamack Road
Oradell, New Jersey 07649
Phone: 201-262-1040
www.tfgllc.com

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Tax Cuts and Jobs Act
Deductions for Home Interest & Home Equity

Before the New Tax Act, you could deduct interest on up to a total of $1 million of mortgage debt used to acquire your principal residence and a second home. For a married taxpayer filing separately, the limit was $500,000. Previously, you could also deduct interest on home equity debt, or other debt secured by the qualifying homes. Qualifying home equity debt was limited to the lesser of $100,000 ($50,000 for a married taxpayer filing separately), or the taxpayer's equity in the home or homes (the excess of the value of the home over the acquisition debt). Further, the funds obtained via a home equity loan did not have to be used to acquire or improve the homes. So you could use home equity debt to pay for education, travel, health care, etc.

Under the **New Tax Act**, starting in 2018, you can deduct interest on up to a total of $750,000 of mortgage debt used to acquire your principal residence and a second home. $375,000 For a married taxpayer filing separately. However, for acquisition debt incurred before Dec. 15, 2017, the higher pre-Act limit applies.

The higher pre-Act limit also applies to debt arising from refinancing pre-Dec. 15, 2017 acquisition debt, to the extent the debt resulting from the refinancing does not exceed the original debt amount. This means you can refinance up to $1 million of pre-Dec. 15, 2017 acquisition debt in the future and not be subject to the reduced limitation.

Also, under **New Tax Act**, starting in 2018, interest on Qualifying home equity debt is no longer a deduction. This applies regardless of when the home equity debt was incurred. Even if you currently have home equity debt, you will not be able to deduct the interest. In 2018, there are tax strategies to consider, one being refinancing, but the deductibility will depend on your personal circumstances. (Please note: you will still be able to deduct it on you 2017 tax return.)

Both of these changes last for eight years, then "sunset" in 2026. The pre-Act rules then revert back into effect. However 2026 is a long way off and we anticipate tax changes before that time.

If you have any questions about how these strategies apply to your particular situation, please contact our office so we can assist you.

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Our Firm is Dedicated to Your Financial Success!