

Interest Expense

PERSONAL INTEREST

Interest is not deductible on tax deficiencies, car loans, personal credit card balances, student loans (except for taxpayers eligible for the above-the-line deduction for interest paid on qualified education loans), or other personal debts.

HOME MORTGAGE INTEREST

A full regular tax deduction is allowed for interest on home acquisition debt used to acquire, construct, or improve a principal or secondary residence to the extent this debt does not exceed \$750,000 million for joint filers (\$375,000 for single filers or married taxpayers filing separate returns). Home acquisition debt incurred on or before December 15, 2017, is grandfathered under the previous \$1,000,000 limitation for joint filers (\$500,000 for single filers or married taxpayers filing separate returns).

Caution: These debts must be secured by the principal or secondary residence such that your home is at risk if the loan is not repaid.

A residence includes a house, condominium, mobile home, house trailer, or boat containing sleeping space, commode, and cooking facilities. If you own more than two residences, you can annually elect which one will be your secondary residence.

INVESTMENT INTEREST EXPENSE

If you want to add to your investment portfolio through borrowing, consider borrowing from your stockbroker through a margin loan. The interest paid is investment interest expense and will be deductible to the extent of your net investment income (dividends, interest, etc.). Investment interest expense in excess of investment income may be carried forward indefinitely.

Planning Suggestion: Net long-term capital gain (long-term gains over short-term losses) and any qualified dividend income are not included as investment income for purposes of determining how much investment interest expense is deductible, unless you elect to subject the capital gain and dividend income to ordinary income rates.

You might consider switching your investments to those types of investments generating taxable investment income to absorb any excess investment interest expense.

Interest expense, to the extent that it is related to tax-exempt income, is not deductible. Interest expense relating to a passive activity, such as a limited partnership investment, is subject to the passive loss limitations on deductibility ([See Passive Activities](#)).

ALLOCATION RULES

Interest payments are generally allocated among the various categories –personal interest, home mortgage interest, investment interest, etc. – based on the ultimate use of the loan proceeds.

Example: An individual borrows \$25,000 on margin and uses the proceeds to purchase an automobile for personal use. The interest expense is treated as personal interest.

The Service has issued complex regulations for determining how these allocations are made, which may require maintaining separate bank accounts or other records. Your advisor can help you maximize tax deductions for your interest payments.