Making home improvements?

Rules for deducting interest on home equity debt

Homeowners can deduct interest paid on home equity loans or home equity lines of credit if they use the loan proceeds for making home improvements. However, if the home equity loan is used to pay for anything else, like college tuition or a new car, the interest on that loan won't be tax deductible.

Homeowners need to be careful when taking out a loan secured by their house. Not all home equity loans qualify for the mortgage interest tax deduction. We need to look at how you spent the loan proceeds when figuring out if your loan interest is deductible.

For tax years 2018 through 2025, homeowners can deduct interest paid on mortgages and home equity debt as long as they spend the loan proceeds to buy, to build, or to substantially improve their main home or a second home.

Here's how to make sure your home equity loan or line of credit will be tax deductible:

- The loan must be secured by your main home or a second home.
- The new home loan, plus any existing mortgages, must have a combined loan balance of $750,000 or less ($375,000 for married couples who file separately). Interest on balances over this limit is not tax deductible.
- The proceeds of the home equity debt must be used to substantially improve your home.

From the IRS's perspective, home improvements are "substantial" if the improvement adds value to your home, extends the useful life of your property, or adapts your home to new uses.

Examples of substantial home improvements:

- Adding a bedroom or bathroom to your house
- Adding a deck, porch, patio or garage
- Building a swimming pool
- Building or replacing a fireplace
- Installing a security system
- Installing built-in appliances
- Installing heating or central air conditioning systems
- Installing new windows, siding or a satellite dish
- Laying new carpet or flooring
- Modernizing the kitchen
- Building a new fence or retaining wall
- Installing new insulation in the attic, walls, floors, or around pipes
- Installing new water heaters and filtration systems
- Paving the driveway
- Replacing the roof
- Replacing the septic system
- Re-wiring the house

Examples of what's not a substantial improvement:

- Repainting your house
- Making ordinary repairs that maintain your home in good condition

Let us know about any new or refinanced home loans. We can help you determine if the interest will be tax-deductible and can help you keep proper documentation for tax purposes.