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IRS Raises Ceiling for Tax Deductions on Luxury Home Loans

The limit for the deduction of interest on a home mortgage which used to be \$1 million has been raised to \$1.1 million. This means if you have a home loan of \$1.1 million your interest can be deducted as a tax break. Naturally, this would be welcomed by home owners of luxury homes such as the 'Signature Collection' homes built by the Toll Brothers.

The IRS had actually issued a memo on this matter last year stating that homeowners could save up to \$3,000 by claiming thousands of dollars in refunds simply by submitting an amended tax return. However, at that time it was not official but not it is.

Here's an example of how this tax deduction works. Let's say an unmarried taxpayer buys a home worth \$1.5 million and takes up an 80% loan for \$1.2 million and pays \$300,000 down payment. He would be entitled to deduct the interest he pays on \$1 million of his loan as interest on acquisition indebtedness. Now with the ceiling raised, he is also allowed to deduct interest paid on an additional \$100,000 of the home loan as interest on home equity indebtedness. The balance \$100,000 of the loan is not subject to tax deductions.

There were two earlier tax court rulings that limited the deductions of other taxpayers with big loans to the interest paid on the first \$1 million in their loans. The reason for this was that the \$100,000 was considered purchase debt subject to the \$1 million cap and therefore did not qualify as home equity indebtedness. But with their official stand on this matter, the IRS has decided not to follow these rulings.

This puts all taxpayers with luxury home loans on a level field where one taxpayer is allowed to deduct an additional \$100,000 on home equity debt over and above their \$1 million first mortgage just as another taxpayer is permitted to deduct interest on \$1.1 million of their original home loan.

Whether or not you are a home buyer, you will need tax advice. Call us at (813) 229 7100 for a free tax consultation.