**Victory for HELOC**

While NARI and other industries worked with Congress to maintain several tax incentives during the tax reform debate, the home equity line of credit (HELOC) appeared to have been eliminated in the final tax reform package that passed in December. Since then, many have questioned if interest incurred on a home equity loan used to make substantial home improvements could remain tax deductible. Last week, the IRS issued guidance (link: <https://content.govdelivery.com/accounts/USIRS/bulletins/1dca891>) on the use of the home equity line of credit deduction, concluding that “despite newly-enacted restrictions on home mortgages, taxpayers can often still deduct interest on a home equity loan, home equity line of credit (HELOC) or second mortgage, regardless of how the loan is labelled.” The IRS noted if the home equity loan or line of credit is “used to buy, build or substantially improve the taxpayer’s home that secures the loan,” the interest paid may still be deducted.

Like previous law, the loan would need to be secured by the taxpayer’s qualified residence and is subject to the new dollar limit on total interest paid on residence loans of $750,000 ($375,000 for single filers) – meaning that the amount of the loans on which interest is paid under a mortgage and a HELOC cannot exceed $750,000.

The IRS provided three examples:

**Example 1:** In January 2018, a taxpayer takes out a $500,000 mortgage to purchase a main home with a fair market value of $800,000.  In February 2018, the taxpayer takes out a $250,000 home equity loan to put an addition on the main home. Both loans are secured by the main home and the total does not exceed the cost of the home. Because the total amount of both loans does not exceed $750,000, all of the interest paid on the loans is deductible. However, if the taxpayer used the home equity loan proceeds for personal expenses, such as paying off student loans and credit cards, then the interest on the home equity loan would not be deductible.

**Example 2:** In January 2018, a taxpayer takes out a $500,000 mortgage to purchase a main home.  The loan is secured by the main home. In February 2018, the taxpayer takes out a $250,000 loan to purchase a vacation home. The loan is secured by the vacation home.  Because the total amount of both mortgages does not exceed $750,000, all of the interest paid on both mortgages is deductible. However, if the taxpayer took out a $250,000 home equity loan on the main home to purchase the vacation home, then the interest on the home equity loan would not be deductible.

**Example 3:**  In January 2018, a taxpayer takes out a $500,000 mortgage to purchase a main home.  The loan is secured by the main home. In February 2018, the taxpayer takes out a $500,000 loan to purchase a vacation home. The loan is secured by the vacation home.  Because the total amount of both mortgages exceeds $750,000, not all of the interest paid on the mortgages is deductible. A percentage of the total interest paid is deductible (see Publication 936).\

In short, interest on a HELOC that your customers plan to use for remodeling of their home is deductible as long as the other requirements are met, but the usage of a HELOC to purchase a car, pay for college, pay off credit cards, etc. is no longer deductible.

As you are well aware, many of our customers finance remodeling projects through loans secured by their homes and this guidance from the IRS is a very welcome update and should be shared with the industry and our customers.