Deductibility of Interest

Under the current income tax law, not all interest is deductible on your tax return.[1]

Nondeductible Interest

Personal interest is not deductible and includes all interest, except those types listed below. Examples of nondeductible personal interest would include interest on credit card purchases, auto loans, unpaid income taxes and deferral of federal estate taxes made at the government's discretion for "reasonable cause" under IRC Sec. 6161.

Deductible Interest

A partial list of types of deductible interest includes:

- Interest on loans used to purchase investment properties: This interest is deductible to the extent there is net investment income. Interest paid on money borrowed to purchase or carry tax-exempt securities is not deductible. Any unused deduction is carried over to future years until used.

- Interest incurred in the conduct of your trade or business: Prior to 2018, interest incurred in the conduct of a trade or business was generally deductible without limit. Under the Tax Cuts and Jobs Act of 2017 (TCJA), for 2018 and later years, the deduction for business interest paid is limited to the sum of business interest income plus 30% of the taxpayer's adjusted taxable income. Some exceptions from this limitation are provided and unused interest deductions may generally be carried forward indefinitely.

- Qualified residence interest: A "qualified residence" is your principal residence and one other property, such as vacation home, a boat you live on, or a motor home. "Acquisition" debt refers to debt incurred to buy, construct, or substantially improve a qualified residence and which is secured by a qualified home.[2]

- Deductibility of mortgage interest – Tax Cuts and Jobs Act of 2017: Under the TCJA, for 2018 – 2025, mortgage interest on acquisition debt on a first and second residence, on total loan amounts of up to $750,000 ($375,000 MFS), is generally deductible; interest on debt in excess of these limits is not deductible. This dollar limitation applies to debt incurred after December 15, 2017.

[1] The discussion here concerns federal income tax law; state or local law may vary.
[2] Under recent federal income tax law (state law may differ), premiums paid for qualified mortgage insurance in connection with acquisition indebtedness on a taxpayer's qualified residence are treated as deductible mortgage interest. This provision applies only to mortgage insurance contracts issued after December 31, 2006, and only for premium amounts paid, accrued, or allocable to 2007 through 2017. The deduction phases out for taxpayers with an AGI in excess of certain limits.

- Deductibility of mortgage interest – before 2018 and after 2025: Prior to the TCJA, a taxpayer could generally deduct the interest paid on two homes on total acquisition debt of up to $1,000,000 ($500,000 MFS). Additionally, interest on up to $100,000 ($50,000 MFS) of "home equity" debt could also be deducted. Home equity debt is debt which does not qualify as acquisition debt, but which is secured by a qualified home. Under the TCJA, deductibility of interest on up to $1,000,000 of acquisition debt and up to $100,000 of home equity debt is scheduled to return for 2026 and later years.

- Interest on educational loans: Taxpayers may deduct up to $2,500 of interest paid on "qualified" education loans. The deduction is taken as an "above-the-line adjustment," directly reducing adjusted gross income (AGI).

The deduction is phased out for taxpayers with a modified AGI in excess of certain limits.

Filing Status	2017	2018	2019
Married filing jointly	$135,000 - $165,000	$135,000 - $165,000	Adjusted for inflation
Single, Head of household, Widow	$65,000 - $80,000	$65,000 - $80,000	Adjusted for inflation