

TAX YEAR
2026

Itemized Deductions
Interest Paid

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Interest That Is Deductible as an Itemized Deduction

- Home mortgage interest paid that is acquisition debt, subject to limitations.
- Points and loan origination fees to obtain a mortgage or to refinance a mortgage.
- Investment interest paid, such as margin interest on a brokerage account.
- Qualified mortgage insurance premiums.

Interest That Is Not Deductible as an Itemized Deduction

- Interest on home equity debt (debt not used to buy, build, or substantially improve a home).
- Personal interest, such as credit card interest on nonbusiness purchases and mortgage interest on a third home.
- Interest on personal vehicle loan interest. Qualified vehicle loan interest may be allowed for itemizers and non-itemizers on Schedule 1-A (Form 1040), *Additional Deductions.*
- Business interest is deductible against business income. Business interest is not deductible as an itemized deduction even if it is for employee business expenses. ***Example:*** Interest on a car loan where an employee uses the vehicle for business is nondeductible as personal interest.
- Interest on qualified student loans is deductible on Schedule 1 (Form 1040), *Additional Income and Adjustments to Income,* rather than Schedule A (Form 1040), *Itemized Deductions.*
- Investment interest on debt used to purchase or carry tax-exempt investments, such as municipal bonds.

Home Mortgage Interest Paid

Secured Debt

A home mortgage is any loan that is secured by your main or second home as collateral for the loan. Home mortgages include first and second mortgages, and refinanced mortgages. A loan secured by your third home is considered a personal loan, unless the third home is used exclusively for business (such as rental property) or investment purposes (such as an inherited house that sits vacant until sold). Debt not secured by the property is personal debt. For example, interest paid on money borrowed from parents for the down payment to purchase a home is personal interest, unless the parents record the loan under state or local law and the home is collateral for the loan.

Home Defined

A home is defined as any house, condominium, cooperative, mobile home, boat, or similar property with basic living accommodations including, sleeping, toilet, and cooking facilities.

Grandfathered Debt

Mortgage taken out on or before October 13, 1987.

- Interest paid on grandfathered debt is fully deductible regardless of what the funds were used for.

Acquisition Debt

Mortgages taken out after October 13, 1987, to buy, build, or substantially improve a main or second home.

- **Acquisition debt incurred before December 16, 2017:** Total acquisition debt on main and second home combined is limited to $1 million ($500,000 Married Filing Separately). Limit is reduced by any grandfathered debt.

continued



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- **Acquisition debt incurred after December 15, 2017:** Total acquisition debt on main and second home combined is limited to $750,000 ($375,000 Married Filing Separately). Limit is reduced by any grandfathered debt.

Refinanced Debt

This may be considered grandfathered debt, acquisition debt, or home equity debt, depending on the following.

- Debt secured by the home and used to refinance acquisition debt is treated as acquisition debt up to the balance of the old principal just before the refinancing. Additional debt used to buy, build, or substantially improve the home is also acquisition debt.
- Refinanced debt in excess of the old acquisition debt principal not used to buy, build, or substantially improve the home is nondeductible home equity debt.
- Debt to refinance grandfathered debt is treated as grandfathered debt up to the balance of the old mortgage, but only for the term left on the debt that was refinanced.
- Refinanced debt that does not qualify as grandfathered debt may be considered acquisition debt or home equity debt.
- The limit that applies to refinanced acquisition debt depends on the date incurred.

Legal Liability to Make Payments

You must be legally liable for the loan to deduct interest on a home mortgage. Payments made on a loan in which you are not directly liable are deductible only if you are the legal or equitable owner of the real estate. You may become an equitable owner if you assume the benefits and burdens of ownership.

Home Equity Debt

Home equity debt is generally any indebtedness other than acquisition debt. Home equity debt includes reverse mortgages and home equity lines of credit (HELOC). Interest on home equity debt is not deductible unless used to buy, build, or improve the home that secures the loan. The combined amount of the mortgage and home equity loans must meet the limits for acquisition debt.

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Mortgage Insurance Premiums

For tax years beginning after 2025, premiums paid or accrued for qualified mortgage insurance in connection with acquisition debt is treated as qualified residence interest. The deduction begins to phase out when your adjusted gross income (AGI) for the tax year exceeds $100,000 ($50,000 MFS).

Investment Interest

Interest paid on a loan to buy property held for investment is deductible. Investment interest does not include home mortgage interest or any interest taken into account in computing income or loss from a passive activity.

Investment Property

Property held for investment includes property that produces interest, dividends, annuities, or royalties not derived in the ordinary course of a trade or business.

Investment Interest

- If money is borrowed for business, personal, or investment purposes, the debt must be allocated among those purposes. Only the interest expense on the part of the debt used for investment purposes is treated as investment interest.
- Interest paid on margin accounts to buy taxable securities is deductible as investment interest.

Limitation

The deduction is limited to your net investment income. You are allowed to carry over the amount of investment interest you are not able to deduct because of the limit. Net investment income is determined by subtracting investment expenses (other than interest expense) from investment income (interest, dividends, annuities, and royalties). Investment income does not generally include qualified dividends or net capital gain.

Contact Us

There are many events that occur during the year that can affect your tax situation. Preparation of your tax return involves summarizing transactions and events that occurred during the prior year. In most situations, treatment is firmly established at the time the transaction occurs. However, negative tax effects can be avoided by proper planning. Please contact us in advance if you have questions about the tax effects of a transaction or event, including the following:

- Pension or IRA distributions.
- Significant change in income or deductions.
- Job change.
- Marriage.
- Attainment of age 59½ or 73.
- Sale or purchase of a business.
- Sale or purchase of a residence or other real estate.
- Retirement.
- Notice from IRS or other revenue department.
- Divorce or separation.
- Self-employment.
- Charitable contributions of property in excess of $5,000.