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## **Internal Revenue Code Section 163(h)(3)(F)(i)(V)**

### **Interest**

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#### **(h) Disallowance of deduction for personal interest.**

##### **(1) In general.**

In the case of a taxpayer other than a corporation, no deduction shall be allowed under this chapter for personal interest paid or accrued during the taxable year.

##### **(2) Personal interest.**

For purposes of this subsection , the term "personal interest" means any interest allowable as a deduction under this chapter other than-

(A) interest paid or accrued on indebtedness properly allocable to a trade or business (other than the trade or business of performing services as an employee),

(B) any investment interest (within the meaning of subsection (d) ),

(C) any interest which is taken into account under section 469 in computing income or loss from a passive activity of the taxpayer,

(D) any qualified residence interest (within the meaning of paragraph (3) ),

(E) any interest payable under section 6601 on any unpaid portion of the tax imposed by section 2001 for the period during which an extension of time for payment of such tax is in effect under section 6163 , and

(F) any interest allowable as a deduction under section 221 (relating to interest on educational loans).

##### **(3) Qualified residence interest.**

For purposes of this subsection -

(A) In general. The term "qualified residence interest" means any interest which is paid or accrued during the taxable year on-

(i) acquisition indebtedness with respect to any qualified residence of the taxpayer, or

(ii) home equity indebtedness with respect to any qualified residence of the taxpayer.

For purposes of the preceding sentence, the determination of whether any property is a qualified residence of the taxpayer shall be made as of the time the interest is accrued.

(B) Acquisition indebtedness.

(i) In general. The term "acquisition indebtedness" means any indebtedness which-

(I) is incurred in acquiring, constructing, or substantially improving any qualified residence of the taxpayer, and

(II) is secured by such residence.

Such term also includes any indebtedness secured by such residence resulting from the refinancing of indebtedness meeting the requirements of the preceding sentence (or this sentence); but only to the extent the amount of the indebtedness resulting from such refinancing does not exceed the amount of the refinanced indebtedness.

(ii) \$1,000,000 limitation. The aggregate amount treated as acquisition indebtedness for any period shall not exceed \$1,000,000 (\$500,000 in the case of a married individual filing a separate return).

(C) Home equity indebtedness.

(i) In general. The term "home equity indebtedness" means any indebtedness (other than acquisition indebtedness) secured by a qualified residence to the extent the aggregate amount of such indebtedness does not exceed-

(I) the fair market value of such qualified residence, reduced by

(II) the amount of acquisition indebtedness with respect to such residence.

(ii) Limitation. The aggregate amount treated as home equity indebtedness for any period shall not exceed \$100,000 (\$50,000 in the case of a separate return by a married individual).

(D) Treatment of indebtedness incurred on or before October 13, 1987.

(i) In general. In the case of any pre-October 13, 1987, indebtedness-

(I) such indebtedness shall be treated as acquisition indebtedness, and

(II) the limitation of subparagraph (B)(ii) shall not apply.

(ii) Reduction in \$1,000,000 limitation. The limitation of subparagraph (B)(ii) shall be reduced (but not below zero) by the aggregate amount of outstanding pre-October 13, 1987, indebtedness.

(iii) Pre-October 13, 1987, indebtedness. The term "pre-October 13, 1987, indebtedness" means-

(I) any indebtedness which was incurred on or before October 13, 1987, and which was secured by a qualified residence on October 13, 1987, and at all times thereafter before the interest is paid or accrued, or

(II) any indebtedness which is secured by the qualified residence and was incurred after October 13, 1987, to refinance indebtedness described in subclause (I) (or refinanced indebtedness meeting the requirements of this subclause) to the extent (immediately after the refinancing) the principal amount of the indebtedness resulting from the refinancing does not exceed the principal amount of the refinanced indebtedness (immediately before the refinancing).

(iv) Limitation on period of refinancing. Subclause (II) of clause (iii) shall not apply to any indebtedness after-

(I) the expiration of the term of the indebtedness described in clause (iii)(I) , or

(II) if the principal of the indebtedness described in clause (iii)(I) is not amortized over its term, the expiration of the term of the 1st refinancing of such indebtedness (or if earlier, the date which is 30 years after the date of such 1st refinancing).

(E) Mortgage insurance premiums treated as interest.

(i) In general. Premiums paid or accrued for qualified mortgage insurance by a taxpayer during the taxable year in connection with acquisition indebtedness with respect to a qualified residence of the taxpayer shall be treated for purposes of this section as interest which is qualified residence interest.

(ii) Phaseout. The amount otherwise treated as interest under clause (i) shall be reduced (but not below zero) by 10 percent of such amount for each \$1,000 (\$500 in the case of a married individual filing a separate return) (or fraction thereof) that the taxpayer's adjusted gross income for the taxable year exceeds \$100,000 (\$50,000 in the case of a married individual filing a separate return).

(iii) Limitation. Clause (i) shall not apply with respect to any mortgage insurance contracts issued before January 1, 2007.

(iv) Termination. Clause (i) shall not apply to amounts-

(I) paid or accrued after December 31, 2021, or

(II) properly allocable to any period after such date.

**Note:** Section 163(h)(3)(F), below, is effective for tax years beginning before Jan. 1, 2026. For Section 163(h)(3)(F) effective after Dec. 31, 2025, see the subsequent text.

(F) Special rules for taxable years 2018 through 2025.

(i) In general. In the case of taxable years beginning after December 31, 2017, and before January 1, 2026-

(I) Disallowance of home equity indebtedness interest. Subparagraph (A)(ii) shall not apply.

(II) Limitation on acquisition indebtedness. Subparagraph (B)(ii) shall be applied by substituting "\$750,000 (\$375,000" for "\$1,000,000 (\$500,000".

(III) Treatment of indebtedness incurred on or before December 15, 2017. Subclause (II) shall not apply to any indebtedness incurred on or before December 15, 2017, and, in applying such subclause to any indebtedness incurred after such date, the limitation under such subclause shall be reduced (but not below zero) by the amount of any indebtedness incurred on or before December 15, 2017, which is treated as acquisition indebtedness for purposes of this subsection for the taxable year.

(IV) Binding contract exception. In the case of a taxpayer who enters into a written binding contract before December 15, 2017, to close on the purchase of a principal residence before January 1, 2018, and who purchases such residence before April 1, 2018, subclause (III) shall be applied by substituting "April 1, 2018" for "December 15, 2017".

(ii) Treatment of limitation in taxable years after December 31, 2025. In the case of taxable years beginning after December 31, 2025, the limitation under subparagraph (B)(ii) shall be applied to the aggregate amount of indebtedness of the taxpayer described in subparagraph (B)(i) without regard to the taxable year in which the indebtedness was incurred.

(iii) Treatment of refinancings of indebtedness.

(I) In general. In the case of any indebtedness which is incurred to refinance indebtedness, such refinanced indebtedness shall be treated for purposes of clause (i)(III) as incurred on the date that the original indebtedness was incurred to the extent the amount of the indebtedness resulting from such refinancing does not exceed the amount of the refinanced indebtedness.

(II) Limitation on period of refinancing. Subclause (I) shall not apply to any indebtedness after the expiration of the term of the original indebtedness or, if the principal of such original indebtedness is not amortized over its term, the expiration of the term of the 1st refinancing of such indebtedness (or if earlier, the date which is 30 years after the date of such 1st refinancing).

(iv) Coordination with exclusion of income from discharge of indebtedness. Section 108(h)(2) shall be applied without regard to this subparagraph.

**Note:** Section 163(h)(3)(F), below, is effective for tax years beginning after Dec. 31, 2025. For Section 163(h)(3)(F) effective before Jan. 1, 2026, see above.

(F) Special rules for taxable years beginning after 2017.

(i) In general. In the case of taxable years beginning after December 31, 2017-

(I) Disallowance of home equity indebtedness interest. Subparagraph (A)(ii) shall not apply.

(II) Limitation on acquisition indebtedness. Subparagraph (B)(ii) shall be applied by substituting "\$750,000 (\$375,000" for "\$1,000,000 (\$500,000".

(III) Mortgage insurance premiums treated as interest. Clause (iv) of subparagraph (E) shall not apply.

(IV) Treatment of indebtedness incurred on or before December 15, 2017. Subclause (II) shall not apply to any indebtedness incurred on or before December 15, 2017, and, in applying such subclause to any indebtedness incurred after such date, the limitation under such subclause shall be reduced (but not below zero) by the amount of any indebtedness incurred on or before December 15, 2017, which is treated as acquisition indebtedness for purposes of this subsection for the taxable year.

(V) Binding contract exception. In the case of a taxpayer who enters into a written binding contract before December 15, 2017, to close on the purchase of a principal residence before January 1, 2018, and who purchases such residence before April 1, 2018, subclause (IV) shall be applied by substituting "April 1, 2018" for "December 15, 2017".

(ii) Treatment of refinancings of indebtedness.

(I) In general. In the case of any indebtedness which is incurred to refinance indebtedness, such refinanced indebtedness shall be treated for purposes of clause (i)(III) as incurred on the date that the original indebtedness was incurred to the extent the amount of the indebtedness resulting from such refinancing does not exceed the amount of the refinanced indebtedness.

(II) Limitation on period of refinancing. Subclause (I) shall not apply to any indebtedness after the expiration of the term of the original indebtedness or, if the principal of such original indebtedness is not amortized over its term, the expiration of the term of the 1st refinancing of such indebtedness (or if earlier, the date which is 30 years after the date of such 1st refinancing).



(iii) Coordination with exclusion of income from discharge of indebtedness. Section 108(h)(2) shall be applied without regard to this subparagraph.

(4) Special rules for taxable years 2025 through 2028 relating to qualified passenger vehicle loan interest.

(A) In general. In the case of taxable years beginning after December 31, 2024, and before January 1, 2029, for purposes of this subsection the term "personal interest" shall not include qualified passenger vehicle loan interest.

(B) Qualified passenger vehicle loan interest defined.

(i) In general. For purposes of this paragraph, the term "qualified passenger vehicle loan interest" means any interest which is paid or accrued during the taxable year on indebtedness incurred by the taxpayer after December 31, 2024, for the purchase of, and that is secured by a first lien on, an applicable passenger vehicle for personal use.

(ii) Exceptions. Such term shall not include any amount paid or incurred on any of the following:

(I) A loan to finance fleet sales.

(II) A loan incurred for the purchase of a commercial vehicle that is not used for personal purposes.

(III) Any lease financing.

(IV) A loan to finance the purchase of a vehicle with a salvage title.

(V) A loan to finance the purchase of a vehicle intended to be used for scrap or parts.

(iii) VIN requirement. Interest shall not be treated as qualified passenger vehicle loan interest under this paragraph unless the taxpayer includes the vehicle identification number of the applicable passenger vehicle described in clause (i) on the return of tax for the taxable year.

(C) Limitations.

(i) Dollar limit. The amount of interest taken into account by a taxpayer under subparagraph (B) for any taxable year shall not exceed \$10,000.

(ii) Limitation based on modified adjusted gross income.

(I) In general. The amount which is otherwise allowable as a deduction under subsection (a) as qualified passenger vehicle loan interest (determined without regard to this clause and after the application of clause (i) ) shall be reduced (but not below zero) by \$200 for each \$1,000 (or portion thereof) by which the modified adjusted gross income of the taxpayer for the taxable year exceeds \$100,000 (\$200,000 in the case of a joint return).

(II) Modified adjusted gross income. For purposes of this clause, the term "modified adjusted gross income" means the adjusted gross income of the taxpayer for the taxable year increased by any amount excluded from gross income under section 911 , 931 , or 933 .

(D) Applicable passenger vehicle. The term "applicable passenger vehicle" means any vehicle-

- (i) the original use of which commences with the taxpayer,
- (ii) which is manufactured primarily for use on public streets, roads, and highways (not including a vehicle operated exclusively on a rail or rails),
- (iii) which has at least 2 wheels,
- (iv) which is a car, minivan, van, sport utility vehicle, pickup truck, or motorcycle,
- (v) which is treated as a motor vehicle for purposes of title II of the Clean Air Act, and
- (vi) which has a gross vehicle weight rating of less than 14,000 pounds.

Such term shall not include any vehicle the final assembly of which did not occur within the United States.

(E) Other definitions and special rules. For purposes of this paragraph-

- (i) Final assembly. For purposes of subparagraph (D) , the term "final assembly" means the process by which a manufacturer produces a vehicle at, or through the use of, a plant, factory, or other place from which the vehicle is delivered to a dealer with all component parts necessary for the mechanical operation of the vehicle included with the vehicle, whether or not the component parts are permanently installed in or on the vehicle.
- (ii) Treatment of refinancing. Indebtedness described in subparagraph (B) shall include indebtedness that results from refinancing any indebtedness described in such subparagraph, and that is secured by a first lien on the applicable passenger vehicle with respect to which the refinanced indebtedness was incurred, but only to the extent the amount of such resulting indebtedness does not exceed the amount of such refinanced indebtedness.
- (iii) Related parties. Indebtedness described in subparagraph (B) shall not include any indebtedness owed to a person who is related (within the meaning of section 267(b) or 707(b)(1) ) to the taxpayer.

(5) Other definitions and special rules.  
For purposes of this subsection -

(A) Qualified residence.

(i) In general. The term "qualified residence" means-

(I) the principal residence (within the meaning of section 121 ) of the taxpayer, and

(II) 1 other residence of the taxpayer which is selected by the taxpayer for purposes of this subsection for the taxable year and which is used by the taxpayer as a residence (within the meaning of section 280A(d)(1) ).

(ii) Married individuals filing separate returns. If a married couple does not file a joint return for the taxable year-

(I) such couple shall be treated as 1 taxpayer for purposes of clause (i), and

(II) each individual shall be entitled to take into account 1 residence unless both individuals consent in writing to 1 individual taking into account the principal residence and 1 other residence.

(iii) Residence not rented. For purposes of clause (i)(II), notwithstanding section 280A(d)(1) , if the taxpayer does not rent a dwelling unit at any time during a taxable year, such unit may be treated as a residence for such taxable year.

(B) Special rule for cooperative housing corporations. Any indebtedness secured by stock held by the taxpayer as a tenant-stockholder (as defined in section 216 ) in a cooperative housing corporation (as so defined) shall be treated as secured by the house or apartment which the taxpayer is entitled to occupy as such a tenant-stockholder. If stock described in the preceding sentence may not be used to secure indebtedness, indebtedness shall be treated as so secured if the taxpayer establishes to the satisfaction of the Secretary that such indebtedness was incurred to acquire such stock.

(C) Unenforceable security interests. Indebtedness shall not fail to be treated as secured by any property solely because, under any applicable State or local homestead or other debtor protection law in effect on August 16, 1986, the security interest is ineffective or the enforceability of the security interest is restricted.

(D) Special rules for estates and trusts. For purposes of determining whether any interest paid or accrued by an estate or trust is qualified residence interest, any residence held by such estate or trust shall be treated as a qualified residence of such estate or trust if such estate or trust establishes that such residence is a qualified residence of a beneficiary who has a present interest in such estate or trust or an interest in the residuary of such estate or trust.

(E) Qualified mortgage insurance. The term "qualified mortgage insurance" means-



(i) mortgage insurance provided by the Department of Veterans Affairs, the Federal Housing Administration, or the Rural Housing Service, and

(ii) private mortgage insurance (as defined by section 2 of the Homeowners Protection Act of 1998 (12 U.S.C. 4901), as in effect on the date of the enactment of this subparagraph ).

(F) Special rules for prepaid qualified mortgage insurance. Any amount paid by the taxpayer for qualified mortgage insurance that is properly allocable to any mortgage the payment of which extends to periods that are after the close of the taxable year in which such amount is paid shall be chargeable to capital account and shall be treated as paid in such periods to which so allocated. No deduction shall be allowed for the unamortized balance of such account if such mortgage is satisfied before the end of its term. The preceding sentences shall not apply to amounts paid for qualified mortgage insurance provided by the Department of Veterans Affairs or the Rural Housing Service.

(5) Repealed.

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