TAX

11 tax tips on mortgages and homeownership

By Tobias Salinger

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The tax questions about mortgages and homeownership start with the potential deduction for interest payments and extend into issues like investing, loans, retirement, politics and family.

Since clients' homes often represent their largest asset and means of building wealth, financial advisors and tax professionals field many queries from their customers on the potential strategies and guidelines for mortgages. A half dozen planners and tax experts helped Financial Planning compile the below list of 11 tips for clients who are buying or refinancing a home.

For the current time, and at least through the end of 2025, the Tax Cuts and Jobs Act slashed the amount of principal value that's eligible for an itemized mortgage interest deduction on a first or second home to $750,000 from $1 million and set a cap of only $10,000 on the exemptions for income, sales and property taxes from state and city governments. Those changes have dramatically reduced claims of those deductions, according to the nonpartisan, nonprofit Tax Foundation. The higher standard deduction from the law (in 2023, $27,700 for couples and $13,850 for individuals) cut eligibility for many deductions.

The prospect of itemization came up frequently in discussions with these six wealth management and tax professionals:

- Liting Chuang, the director of tax planning and an associate wealth advisor with the Seattle-area office of Bordeaux Wealth Advisors
- Steve Henderson, a regional director and partner with the Tulsa, Oklahoma-based office of Merit Financial Advisors
- James Bremis, a financial planner with Wakefield, Massachusetts-based Sentinel Group
- Frank Remund, a Beaverton, Oregon-based principal wealth manager with Savvy Advisors
- Adrienne Davis, a financial planner with Philadelphia-based Zenith Wealth Partners
- David Lesperance, a lawyer who's the principal of international tax and immigration advisory firm Lesperance & Associates

Itemize mortgage interest or no?

Some clients may still qualify to deduct their mortgage interest payments from their income, according to Davis.

"We try to find the optimal deduction for clients when deciding between the itemized mortgage interest deduction or the standard deduction," Davis said in an email. "Depending on the client, mortgage interest and charitable contributions can push them over the threshold. For clients who aren't homeowners, unless they have a lot of charitable contributions, typically the standard deduction makes the most sense and is the most optimal deduction. For couples who file 'married filing separately,' if one spouse takes the itemized deduction, the other spouse must take the itemized deduction as well."

Fewer clients claiming deductions

Other than business owners getting the deduction for **using their residence as an office**, the changes under the 2017 law make itemization a less likely solution for many clients, Henderson said.

"The benefit that used to be touted in many cases is not what it used to be," he said.

Split state and federal decision?

Clients who don't claim the federal deduction for their mortgage interest may still do so at the state level, so they should ensure they're keeping track of every charitable donation that enters into the equation for determining whether to itemize, Remund pointed out.

"You may be standard deducting on the federal and itemizing on the state, because the standard deduction is low," he said. "You have a lot of states where that is the case, where you'll split."

Deducting other types of interest payments

Homeowners who refinance and follow the "**interest tracing rules**" for the use and collateral of loans may find **a much bigger deduction than the amount available for mortgage financing** by spending the proceeds on investments or a business, Chuang noted.

"If you use the proceeds to buy that dream boat that you want, that's considered a personal expense and it would be nondeductible," she said. "Interest tracing is a very powerful strategy to hopefully minimize the non-deductibility of the interest."

Strategic risks

Henderson offered a caveat against using the loan proceeds for investments.

"I'm not a big fan of it," he said. "It's a way to lose your equity pretty quickly if things don't go well."

Residency cautions

In that vein, a popular recent gambit by wealthy Americans and businesses has seen many changing **their residence or headquarters to the U.S. territory of Puerto Rico**, according to Lesperance. However, the residency requirements and strict scrutiny of the IRS or states like New York and California can make logistical adjustments difficult for spouses and children.

"This worked financially and worked around the boardroom table, but it's not selling around the breakfast table," Lesperance said a client told him.

An option for first-time homebuyers

Potential first-time homebuyers may be able to avoid borrowing as much or at all at the **currently skyrocketing** mortgage interest rates by **using up to $10,000** from their individual retirement accounts, Bremis said, adding that the money would also count as income. Experts frequently warn that IRA withdrawals cause compounding losses over time as well — along with other **disadvantages of "raiding" a retirement account**. A first home might present an exception.

"There's no penalty for actually accessing it for that," Bremis said of clients buying their first-ever homes with the money. "You wouldn't have to borrow any more, necessarily."

Sale of a primary residence

Homeowners selling a property that was their primary home **for at least a total of two years** out of the last five prior to the transaction may deduct up to $250,000 on the profit for individuals and $500,000 for couples, Henderson noted.

"There's no limit to how many of those you can do in your lifetime," he said. "It's going to be rare that you pop out a half a million dollar gain on a property. It's a nice tax-free benefit."

Move to another country?

Buying a home in another country could serve as either a "go-bag" option or a key aspect of living abroad or total expatriation from the country, according to Lesperance. More clients from across the political spectrum are considering international moves due to a variety of issues including climate change, mass shootings, crime or high taxes, he said.

"Because you've got the right fire insurance and fire escape plans, you've got optionality," Lesperance said. "You can buy properties in most countries."

Additional financing options

Deductions for the interest payments on refinancing and home equity loans, as well as home equity lines of credit, follow the same rules as those of mortgages.

"When you get a HELOC, you've got to make sure that you're using it to improve your home," Remund said.

Home improvements

Clients' home improvement projects **may qualify** for medical deductions or energy efficiency tax credits. Those and other upgrades to a home can also raise the "cost basis" for the property, which would then reduce the taxes on capital gains after the sale of the asset, according to Chuang, who noted that underwriter expenses and fees are part of the calculation as well.

"If you're doing home improvements, keep track of those expenses because those home improvements increase your cost basis," she said.

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