

Internal Revenue Code Section 163(h)(3)(B)(i) Interest

(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).