

Borrowing on a Personal Residence to Fund Your Business

By Adam J Underwood

Borrowing from the equity in your home for a business venture can be an effective way to get the capital you need to get your business off the ground. There are different ways of designing the borrowing with a first or second mortgage depending on your individual situation. There are also some related tax issues that you will want to keep in mind when doing this.

The First thing to keep in mind is that in the US the interest will by default follow the underlying security pledged for the loan. This means that if you borrow against the equity in your home then the interest would be reported on the schedule A up to the associated limits. These limits in 2015 are First Mortgage up to \$1,000,000.00 and for a home equity up to \$100,000.

According to IRS Reg. 1.163-10T (o) (5) if a tax payer makes the 10-T election then the borrowings are traced to their use, not the underlying pledged security. Like all other elections this one must be in writing and submitted with tax return in the year beginning the election. Once the election is made it does not have to be made again as it will stay in effect for all future years. If a new loan is made on the personal residence then a new 10-T election must be made.

The benefit of this election is the ability to deduct the mortgage interest on the schedule C of your 1040 filing or other separate business return filing. The full deductibility of the interest against earnings is a clear benefit to deducting the interest on the Schedule A potentially losing the deduction if your standard deductions is higher than your itemized deductions.

Each person's situation is different and a consultation with your tax advisor is always a best practice before you decide to take out a loan to fund any business venture.

How we can help:

- We have the knowledge and experience to file this and other elections for your tax returns.
- We work with the planning and implementation of business plans through our many years of business consulting and development.