


Reg. Section 1.163-10T(o)(5)(i) Qualified residence interest

(o) Secured debt—

...

(5) Election to treat debt as not secured by a qualified residence—

 (i) In general. For purposes of this section, a taxpayer may elect to treat any debt that is secured by a qualified residence as not secured by the qualified residence. An election made under this paragraph shall be effective for the taxable year for which the election is made and for all subsequent taxable years unless revoked with the consent of the Commissioner.

(ii) Example.

T owns a principal residence with a fair market value of \$ 75,000 and an adjusted purchase price of \$ 40,000. In 1988, debt A, the proceeds of which were used to purchase the residence, has an average balance of \$ 15,000. The proceeds of debt B, which is secured by a second mortgage on the property, are allocable to T's trade or business under § 1.163-8T and has an average balance of \$ 25,000. In 1988, T incurs debt C, which is also secured by T's principal residence and which has an average balance in 1988 of \$ 5,000. In the absence of an election to treat debt B as unsecured, the applicable debt limit for debt C in 1988 under paragraph (e) of this section would be zero dollars (\$ 40,000 - \$ 15,000 - \$ 25,000) and none of the interest paid on debt C would be qualified residence interest. If, however, T makes or has previously made an election pursuant to paragraph (o)(5)(i) of this section to treat debt B as not secured by the residence, the applicable debt limit for debt C would be \$ 25,000 (\$ 40,000 - \$ 15,000), and all of the interest paid on debt C during the taxable year would be qualified residence interest. Since the proceeds of debt B are allocable to T's trade or business under § 1.163-8T, interest on debt B may be deductible under other sections of the Internal Revenue Code.