

**Notice 88-74, 1988-2 CB 385**

**Home Mortgage Interest**

This notice provides guidance on various issues relating to the home mortgage interest deduction under section 163 of the Internal Revenue Code as revised by the Revenue Act of 1986 for taxable years beginning after December 31, 1986.

Section 163 provides that qualified residence interest is deductible without regard to the limitation

incurred to construct or improve the residence to the extent of any expenditures to construct or improve the residence which are made within the period beginning 4 months prior to the date the residence or improvement is completed and ending on the date the debt is incurred

Whether residence or improvement is complete depends upon all the facts and circumstances

For purposes of determining whether debt is incurred to acquire, construct or substantially improve residence, debt is incurred on the date that the loan proceeds are disbursed to or for the benefit of the taxpayer i.e., generally the loan closing date. The taxpayer, however, may treat the debt as being incurred on the date that written application is made to incur the debt, but only to the extent that the debt proceeds are actually disbursed within reasonable time after approval of the application. Debt proceeds disbursed within thirty days after approval of the application are considered **Page 386** disbursed within reasonable time after approval of the application. Regulations will provide that if written application is

