THE TAX CUTS AND JOBS ACT
2017-2018

What it Means for Homeowners and Real Estate Professionals

The National Association of REALTORS®

Dec 2017

(NAR) worked throughout the tax reform process to preserve the existing tax benefits of home ownership and real estate investment, as well to ensure as many real estate professionals as possible would benefits from proposed tax cuts. Many of the changes in the final bill were the result of the engagement of NAR and its members, not only in the last three months, but over several years.

While NAR remains concerned that the overall structure of the final bill diminishes the tax benefits of home ownership and will cause adverse impacts in some markets, the advocacy of NAR members, as well as consumers, helped NAR to gain some important improvements throughout the legislative process.

The final legislation will benefits many homeowners, home buyers, real estate investors, and NAR members as a result.

The final bill includes some big successes. NAR efforts helped save the exclusion for capital gains on the sale of a home and preserved the like-kind exchange for real property.

Many agents and brokers who earn income as independent contractors or from pass-through businesses will see a significant deduction on that business income.

As a result of the changes made throughout the legislative process, NAR is now projecting slower growth in home prices of 1-3% in 2018 as low inventories continue to spur price gains.

However, some local markets, particularly in high cost, higher tax areas, will likely see price declines as a result of the legislation's new restrictions on mortgage interest and state and local taxes.

Tax Rate Reductions

The new law provides generally lower tax rates for all individual tax filers. While this does not mean that every American will pay lower taxes under these changes, many will. The total size of the tax cut from the rate reductions equals more than $1.2 trillion over ten years.

The tax rate schedule retains seven brackets with slightly lower marginal rates of 10%, 12%, 22%, 24%, 32%, 35%, and 37%.

The final bill retains the current-law maximum rates on net capital gains (generally, 15% maximum rate but 20% for those in the highest tax bracket; 25% rate on recapture" of depreciation from real property).

Captial Gains

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Exclusion of Gain on Sale of a Principal Residence

• The final bill retains current law. A significant victory in the final bill that NAR achieved.

The Senate-passed bill would have changed the amount of time a homeowner must live in their home to qualify for the capital gains exclusion from 2 out of the past 5 years to 5 out of the past 8 years. The House bill would have made this same change as well as phased out the exclusion for taxpayers with incomes above $250,000 single/$500,000 married.

Mortgage Interest Deduction

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Thefinal bill reduces the limit on deductible mortgage debt to $750,000 for new loans taken out after 12/14/17. Current loans of up to $1 million are grandfathered and are not subject to the new $750,000 cap. Neither limit is indexed for inflation.

Homeowners may refinance mortgage debts existing on 12/14/17 up to $1 million and still deduct the interest, so long as the new loan does not exceed the amount of the mortgage being refinanced.

The final bill repeals the deduction for interest paid on home equity debt through 12/31/25. Interest is still deductible on home equity loans (or second mortgages) if the proceeds are used to substantially improve the residence.

Interest remains deductible on second homes, but subject to the $1 million / $750,000 limits.