

Tax Cut and Jobs Act of 2017

House & Senate Tax Bills: Issues Related to Housing

December 14, 2017

Date of tax bill analysis

General Issues

Federal government abandons nearly a century of promoting homeownership.

Downward price pressure on most housing markets with lower threshold or elimination of mortgage interest rate deductions.

Lowers sales volume by discouraging mobility (turnover), limiting inventory for first time buyers.

Disproportionately places a drag on high-cost housing markets with caps on real estate taxes as well as state and local taxes*

*Despite larger tax cuts for the wealthy, high-end housing markets are hit harder because the issues are largely mutually exclusive.

Issues	Bill	Terms & Insights
Mortgage Interest Deduction (MID)	HOUSE	Lowers threshold by half to first \$500,000 of a mortgage, primary residences, grandfathered
	SENATE	Keeps \$1,000,000 threshold, but removes home equity deduction.
	IMPACT	Compromised at a \$750,000 threshold. Nearly doubles the standard deductions to shift taxpayers away from itemization, removing some financial incentive for homeownership. Greatest impact to affordability felt in high-cost housing markets on the east and west coasts but depends on the share of homeowners who itemize their deductions. The lower tax rates dilutes the value of MID. While 21% of taxpayers claim the MID, 4% will claim with the tax bill. The thinking by lawmakers is that MID incentivizes homeowners to trade up to a bigger house, and removing MID won't remove the incentive to buy.
Itemized Deductions	HOUSE	44% of homes that were to be financed would qualify for a deduction, falls to 12%
	SENATE	44% of homes that were to be financed would qualify for a deduction, falls to 7%
	IMPACT	Massive shift towards standard deductions as homeownership benefit is sharply reduced. Approximately 30 million tax payers itemize deductions, with 1/3 having incomes of \$100,000 to \$200,000. This is the middle class in high-cost housing markets.
Inventory	IMPACT	Disincentivises homeowners from moving because tax bill applies only to new mortgages, adding difficulty to inventory conditions, already at or near record lows in most markets.

Affordability	IMPACT Both bills generally favor being a landlord over homeownership by reducing deductions that homebuyers have relied on. A bigger issue in high-cost and second home markets.
Property Tax Cap	BOTH Places \$10,000 cap on property tax - can now include state and local taxes. SENATE Elimination of the property tax deduction. IMPACT Only 4 million taxpayers have real estate taxes above \$10k, hitting high-cost markets harder.
State and Local Tax Deductions (SALT)	BOTH Places \$10,000 cap on SALT - can now include property taxes in the mix. IMPACT Won't matter to 2/3 of U.S. homeowners. Mainly high-cost housing markets on east and west coasts where approximately 35% to 50% of taxpayers itemize. Higher tax cuts for wealthy said to serve as an offset for loss of most deductions.
Corporate Tax Cuts	IMPACT Favors Wall Street which could result in higher profits; bonuses in NYC metro. Cuts corporate tax rate from 35% to 21% and are permanent. Individual cuts expire 2027. Corporations already experiencing record profits during a period of peak employment so the cuts are not expected to boost already tepid wage growth, a key driver of housing demand.
Housing Prices	IMPACT Moody's projected a 10% housing price correction for high-cost markets like Manhattan over a number of years, which appears aggressive. However, the loss of long built-in write-offs will have a downward impact on U.S. housing prices as the amount of the monthly payment left over for principal and interest will decline.
Interest Rates	IMPACT \$1.5 trillion in additional government borrowing to pay for the cuts will push mortgage rates higher. Benefits of the cuts to be enjoyed by commercial landlords could be partially offset by higher borrowing costs.
Home Flipping, Investment	IMPACT Despite loss of MID, investors can still write off business expenses in flips and speculation.
Second Homes	IMPACT Eliminates MID for second homes (aka vacation).
Home Equity Loans	IMPACT Eliminates MID for home-equity loans.
First Time Homebuyers	IMPACT Reduced mobility of taxpayers will keep entry-level inventory tight, reducing affordability.

LLC and Partnerships	<p>HOUSE Caps pass-through rate at 25%, down from 39.6%.</p> <p>SENATE Allows exclusion of 22.4% of income from taxes in pass-throughs.</p> <p>IMPACT This tax cut is very favorable to commercial property owners.</p>
Depreciation	<p>SENATE Accelerates depreciation from 39 years to 25 years. commercial property owners.</p> <p>IMPACT This tax cut is very favorable to commercial property owners.</p>
Estate Tax	<p>BOTH Doubles federal real estate exemption levels, currently at \$5.49M for individuals and \$10.98M for married couples. Before, 0.2% of taxpayers impacted by the estate tax.</p> <p>HOUSE Eliminates the estate tax after 2027.</p> <p>IMPACT Assists those who qualify but future benefits will be mitigated by eliminating the financial incentive of homeownership.</p>

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Insights, suggestions, corrections welcome - this is not a complete analysis of the tax bill but only meant as a rough interpretation on its potential impact to the broader housing market. All readers are advised to consult with tax professionals and not rely on my interpretation when considering their own situations. In other words, use common sense. C'mon, do I need to say this? It should be obvious to all readers.

G.O.P. House Tax Bill

<https://assets.documentcloud.org/documents/4172264/Read-the-G-O-P-Tax-Bill.pdf>

G.O.P. Senate Tax Bill

<https://www.wsj.com/public/resources/documents/SENATETAXBILL12012017.pdf>

Resources

<https://www.wsj.com/articles/affordable-housing-industry-braces-for-gop-tax-overhaul-1511870400>

<https://www.nytimes.com/2017/12/04/business/economy/tax-bill-new-york.html>

<http://www.businessinsider.com/gop-tax-reform-bill-means-for-housing-mortgage-interest-deduction-2017-12>

http://www.realeclearpolicy.com/articles/2017/11/29/will_the_gop_tax_bill_hurt_home_values.html

<https://www.washingtonpost.com/news/wonk/wp/2017/11/06/where-the-loss-of-the-second-home-mortgage-deduction-would-be-felt-the-most/>

<http://money.cnn.com/2017/11/28/news/economy/senate-revised-tax-bill/index.html>

<https://therealdeal.com/2017/12/05/how-will-the-tax-bill-impact-nyc-real-estate/>

<http://nymag.com/daily/intelligencer/2017/11/under-the-trump-tax-bill-itemizing-deductions-will-drop.html>

<https://www.reuters.com/article/us-usa-tax/republicans-forge-tax-deal-final-votes-seen-next-week-idUSKBN1E71A5>

<https://www.nytimes.com/2017/12/13/us/politics/tax-bill-republicans-deal.html>

<https://www.nytimes.com/interactive/2017/12/08/us/politics/house-senate-tax-bill-comparison.html>