

# 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)	<b>HOUSE</b>	Lowers threshold by half to first \$500,000 of a mortgage, primary residences, grandfathered
	<b>SENATE</b>	Keeps \$1,000,000 threshold, but removes home equity deduction.
	<b>IMPACT</b>	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	<b>HOUSE</b>	44% of homes that were to be financed would qualify for a deduction, falls to 12%
	<b>SENATE</b>	44% of homes that were to be financed would qualify for a deduction, falls to 7%
	<b>IMPACT</b>	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	<b>IMPACT</b>	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	<b>IMPACT</b> 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	<b>BOTH</b> Places \$10,000 cap on property tax - can now include state and local taxes. <b>SENATE</b> Elimination of the property tax deduction. <b>IMPACT</b> Only 4 million taxpayers have real estate taxes above \$10k, hitting high-cost markets harder.
State and Local Tax Deductions (SALT)	<b>BOTH</b> Places \$10,000 cap on SALT - can now include property taxes in the mix. <b>IMPACT</b> 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	<b>IMPACT</b> 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	<b>IMPACT</b> 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	<b>IMPACT</b> \$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	<b>IMPACT</b> Despite loss of MID, investors can still write off business expenses in flips and speculation.
Second Homes	<b>IMPACT</b> Eliminates MID for second homes (aka vacation).
Home Equity Loans	<b>IMPACT</b> Eliminates MID for home-equity loans.
First Time Homebuyers	<b>IMPACT</b> Reduced mobility of taxpayers will keep entry-level inventory tight, reducing affordability.

LLC and Partnerships	<p><b>HOUSE</b> Caps pass-through rate at 25%, down from 39.6%.</p> <p><b>SENATE</b> Allows exclusion of 22.4% of income from taxes in pass-throughs.</p> <p><b>IMPACT</b> This tax cut is very favorable to commercial property owners.</p>
Depreciation	<p><b>SENATE</b> Accelerates depreciation from 39 years to 25 years. commercial property owners.</p> <p><b>IMPACT</b> This tax cut is very favorable to commercial property owners.</p>
Estate Tax	<p><b>BOTH</b> 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><b>HOUSE</b> Eliminates the estate tax after 2027.</p> <p><b>IMPACT</b> 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](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>