Tax Cut and Jobs Act of 2017

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Issues Related to Housing

Signed into law December 22, 2017

Effective January 1, 2018

General Issues

Federal government abandons nearly a century of promoting homeownership.

Downward price pressure on housing with loss or cap on most deductions as majority of taxpayers shift to standard deductions.

Most of the law as it relates to housing reduces the mobility of homeowners through financial disincentives.

Disproportionately places a drag on high-cost housing markets with caps on RET and SALT despite larger cuts for wealthy because those issues are largely mutally exclusive.

Issues	Terms & Insights
Mortgage Interest Deduction (MID)	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% projected to claim with new law. The thinking by lawmakers is that MID incentivizes homeowners to trade up to a bigger house, claiming that removing MID won't remove the incentive to buy. Can take deductions for $1 million existing mortgages since law only applies to new ones. $750,000 deduction not indexed for inflation so tax incentive will decline steadily over time.
Itemized Deductions	44% of homes that were to be financed would qualify for a deduction, falls to 14.4% 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.

Capital gains	Home sellers can still exclude $500,000 for joint filers or $250,000 for single filers for cap gains when selling primary home if lived there for 2 of past 5 years "two of five rule."
Inventory	Disincentivises homeowners from moving as tax law applies only to new mortgages, adding difficulty to inventory conditions, already at or near record lows in most markets.
Affordability	Favors being a landlord over homeownership by reducing deductions that homebuyers have relied on. This is a bigger issue in high-cost and second home markets. While affordability will improve as home prices erode, it ends up being a wash for homebuyers because there are fewer deductions (That's why home prices will decline.)
Property Tax Cap (RET) State and Local Tax Deductions (SALT)	Places $10,000 cap on the combination of property tax and SALT. Only 4 million taxpayers have real estate taxes above $10k, hitting high-cost markets harder. 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. If married couples file separately, the deduction cap is still $10,000 ($5,000 each).
Corporate Tax Cuts	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	Moody's projected a 10% housing price correction for high-cost markets like Manhattan, which appears aggressive yet NAR predicts a 10% national decline in prices nationwide. 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	$1.5 trillion in additional government borrowing to pay for the cuts will probably push mortgage rates slightly higher. Benefits of the tax cuts to be enjoyed by commercial landlords partially offset by higher borrowing costs.
Home Flipping, Investment	Despite loss of MID, investors can still write off business expenses in flips and speculation.

Second Homes	MID is still available for second homes but is subject to the $750,000 limit.
Home Equity Loans	Suspends MID for home-equity loans through 2025. Applies to current and new HELOCs
First Time Homebuyers	Reduced mobility of taxpayers will keep entry-level inventory tight, reducing affordability.
LLC and Partnerships	Caps pass-through rate at 21%, down from 39.6%. This tax cut is very favorable to commercial property owners.
Depreciation	Accelerates depreciation from 39 years to 25 years, very favorable to landlords
Estate Tax	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.
Deduction for casualty losses	Now only applies to losses incurred in a "presidentially-declared" disaster area.
Personal exemption	Before the new law, taxpayers could claim $4,050 personal exemption for themselves, their spouse and each of their children. That has been eliminated thereby offsetting other forms of tax relief for many in the new law.
Alternative Minimum Tax (AMT)	AMT was a way to make those who take a lot of deductions pay some federal income taxes. Exemption was raised to $70,300 for singles and $109,400 for married couples.
Moving Expenses	Eliminated, except for military.
Alimony	After December 31, 2018, alimony payments are no longer tax deductible by payor. Recipient still pays as income.
Student Loans	Loan interest up to $2,500 is still deductible.
Historic Tax Credit	Continues to provide a 20% credit but spreads the deduction to 5 years, from 1 year.

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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.

Download the text of the law

https://www.congress.gov/115/bills/hr1/BILLS-115hr1enr.pdf

Resources

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