

Tax Reform and Housing



NIFA Housing Innovation Marketplace
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Dates to Remember

- December 20, 2017: Bill Signed into Law
- January 1, 2018: New tax rules took effect
- December 31, 2025: After this date, all individual tax changes, including the rate structure, 20% pass-through deduction, etc, will expire.
- January 1, 2026: Individual tax code and pass-through provisions revert back to 2017 rules



Individual Tax Changes

Tax bill represents a \$1.2 trillion tax cut for individuals

Most taxpayers will see a tax cut

Typical taxpayer in every bracket will see a tax cut



Mortgage Interest Deduction

Camp: Reduced cap to \$500,000; retained second home deduction; eliminated HELOC deduction

House: Reduced cap to \$500,000, eliminated second homes; eliminated HELOC deduction

Senate: Preserved \$1m cap; retained second homes; eliminated HELOC deduction



Mortgage Interest Deduction

Final Law: Cap reduced to \$750k; retained second homes;
eliminated HELOC deduction

34 million taxpayers claiming

Reduced to less than 14 million



Mortgage Interest Deduction

Remodeling out?

No...acquisition debt for substantial improvements

NAHB has reached out to IRS for confirmation

What is substantial improvement?

Adds value to home or prolongs life of home

Repairs excluded

Deduction for State and Local Taxes (SALT)

Camp: Eliminated

House: Itemizers may deduct up to \$10,000 in property taxes;
no deduction for income/sales taxes

Senate: Itemizers may deduct up to \$10,000 in property taxes;
no deduction for income/sales taxes

Deduction for State and Local Taxes (SALT)

Final Law: Itemizers may deduct property plus their choice of either state and local income or sales taxes, up to combined amount of \$10,000

Don't forget AMT however

5 million taxpayers reduce to 200,000



Capital Gains Exclusion

(allows homeowners to avoid capital gains tax on up to \$250k (singles) or \$500k (couples) in profits from sale of primary residence, provided they reside in the home for a set period of time)

Camp: Increased the occupancy requirement to 5 of 8 past years; benefit phased-out at incomes above \$250k (singles)/\$500k (couples)

House: Increased the occupancy requirement to 5 of 8 past years; benefit phased-out at incomes above \$250k (singles)/\$500k (couples)

Senate: Increased the occupancy requirement to 5 of 8 past years



Capital Gains Exclusion

Final Law: Retains current law, which requires an occupancy period of 2 of previous 5 years



AMT

Final Law: Retains AMT, increases the exemption amounts and phase-out thresholds

Reduce from 5 million to 200,000 taxpayers



Estate Tax

Camp: No change

House: Exemption doubled; full repeal starting in 2025

Senate: Exemption doubled, no repeal

Final Law: exemption doubled, no repeal



Carried Interest

Camp: Retained for real estate

House: Retained, but must hold asset for 3 years

Senate: Retained, but must hold asset for 3 years

Final Law: Retained, but must hold asset for 3 years



Tax Changes Affecting Pass-Thrus

Final Law: Taxed at the individual rate, up to 37%, with up to 20% of non-wage or guaranteed-payment business income eligible for a deduction

- NAHB analysis finds that the final law offered the larger tax cuts for owners of small and medium-sized builder, developers and remodelers
- Typical average tax rate reduction of 5 percentage points



20% Pass-Thru Deduction

Final Law: Individuals may generally deduct 20% of qualified business income,
based on wages or on wages plus a capital element;

Individuals with less than \$157,500 (singles)/\$315k (couples) in qualified business income are exempt from the W-2 limitation



Business Interest Deduction

Final Law: Taxpayer can make a one-time election either for a deduction limited to 30% of AGI without regard to depreciation, amortization, and depletion;

for real estate, a 100% deduction for business interest, but with certain trade-offs regarding depreciation



Multifamily Rental Depreciation

Camp: Increased to 40 years

House: Maintained current law, 27.5 years

Senate: 25 years or 30 years, depending on how the taxpayer elects to treat business interest

Final Law: 27.5 years or 30 years, depending on how the taxpayer elects to treat business interest



Active Loss Limitation

Final Law: Limits losses to \$250k (singles)/\$500k (couples)

Impacts?

Commercial vs residential

Start-ups



Corporate Tax Changes

Top rate for c-corps is reduced from 35% to 21%

Dividends are still subject to a tax rate ranging from 15% to 23.8%.



Low-Income Housing Tax Credit

Final Law: RETAINED WITHOUT CHANGES

Base Erosion and Anti-Abuse Tax (BEAT)

- House: Not included
- Senate: BEAT requires a minimum tax rate for foreign entities; LIHTCs cannot be claimed against the BEAT
- **Final Law**: BEAT requires a minimum tax rate for foreign entities; 80% of LIHTCs can be claimed against the BEAT



Bonds

Private Activity Bonds (PABs)

Camp: Eliminated

House: Eliminated

Senate: Retained

Final Law: Retained



1031 Like Kind Exchanges

Camp: Repealed

House: Retained for Real Estate

Senate: Retained for Real Estate

Final Law: Retained for Real Estate



Completed Contract Rules

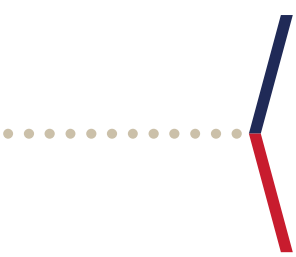
(retaining this provision ensures home builders do not have to pay estimated tax payments on homes under construction, if the construction period straddles two tax years, until the home is sold)

Camp: Repealed

House: Retained

Senate: Retained

Final Law: Retained



Housing and Economic Forecasts



Headline Impacts

- Economic impacts
 - GDP
 - Marked up 2018 forecast to 2.7%
 - Dynamic scoring model suggests 0.8% more GDP after 10 years
 - Business investment
 - 1.1% higher after ten years
 - Labor supply and employment
 - 0.6% higher
 - 0.9 million more workers in labor force
 - Reduced home price growth to a positive 2.9% growth rate in 2018



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