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
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
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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Thank you

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