

H.R. 1 - The Tax Cuts and Jobs Act Conference Agreement

NAR remains concerned that the overall structure of this bill poses problems for homeowners and the broader housing market, but the conference committee has made some important improvements to the House and Senate legislation that ultimately will benefit some homeowners and communities.

Provisions of Interest to NAR and Its Members

Effects on the Tax Benefits of Homeownership

Standard Deduction

- The final bill follows the Senate bill and provides a standard deduction of \$12,000 for single individuals and \$24,000 for joint returns.

Mortgage Credit Certificates

- The House bill repealed MCCs, but the final bill leaves them in the law.

Mortgage Interest Deduction

- Reduces limit on deductible mortgage debt to \$750,000 for new loans taken out after 12/14/17.
 - Current loans up to \$1 million are grandfathered.
- Homeowners may refinance mortgage debts existing on 12/14/17 up to \$1 million and still deduct the interest, so long as the new loan does not exceed the amount refinanced.
- Repeals deduction for interest paid on home equity debt through 12/31/25.
- Interest is still deductible on home equity loans if proceeds are used to substantially improve the residence.
- Interest remains deductible on second homes, but subject to the limits.

State and Local Taxes

- Final bill allows an itemized deduction of up to \$10,000 for the total of state and local property taxes and income or sales taxes.
 - The final bill also specifically precludes the deduction of prepaid 2018 state and local taxes (in 2017).

Deduction for casualty losses

- Final bill provides a deduction only if a loss is attributable to a presidentially-declared disaster.

Deduction for medical expenses

- Final bill follows the Senate bill and retains the deduction for medical expenses (including decreasing the 7.5% floor for 2018).

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Other Effects on Current and Prospective Homeowners

Tax Rates

- The tax rate schedule general follows the Senate bill, with seven rates ranging from 10% to 37%
- The final bill retains the current-law maximum rates on net capital gains (generally, 15% maximum rate but 20% for those in the highest tax bracket; 25% rate on “recapture” of depreciation from real property.

Personal Exemptions

- The final bill repeals the deduction for personal exemptions.

Child Credit

- The final bill increases the child tax credit to \$2,000 from \$1,000 and keeps the age limit at 16 and younger.

Student Loan Interest Deduction

- The House bill repealed the deduction, but the final bill retains it.

Moving Expenses

- Final bill repeals moving expense deduction and exclusion, except for members of the Armed Forces.

Exclusion of gain on sale of a principal residence

- The final bill retains current law

Effects on Business Income From Pass-Through Entities

- The final bill follows the Senate bill’s approach of allowing a deduction for business income, but the amount is 20% (not 23%).
- The threshold amount of taxable income where personal service businesses and the wage limit are phased in is set at \$157,500 for single individuals and \$315,000 for couples.
 - Above this level, the benefits are phased out over an income range of \$50,000 for singles and \$100,000 for couples.
- Impact on most NAR Members:
 - For those agents and brokers who earn business income from personal services, and their total taxable income for the year is under the thresholds above, they will generally receive a deduction of 20% of their business income.
 - If their taxable income is over \$157,500 (single) or \$315,000 (joint) but less than \$207,500 (single) and \$415,000 (joint), the deduction will be phased out.
 - Real estate agents and brokers receiving income above these amounts are still eligible to claim a deduction on their business income, even though the income might be earned through their personal services. The regulations governing this new deduction provide that real estate is an eligible category. However, the deduction will be limited by the greater of 50% of the amount of wages paid by the business or 25% of such wages plus 2.5% of the original cost of depreciable business property.

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Effects on Real Property

Cost Recovery (Depreciation)

- Final bill does not include the lower recovery periods for nonresidential real property and residential rental property and leasehold improvements. Thus, the current-law recovery periods of 39 years, 27.5 years, and 15 years, respectively, remain.

Like-Kind Exchanges

- The final bill excludes real property from the repeal of section 1031 like-kind exchanges.

Carried Interest

- Final bill includes the House and Senate language requiring a 3-year holding period to qualify for current-law (capital gains) treatment.

Rehabilitation Credit

- Final bill repeals the current-law 10% credit for pre-1936 buildings but retains the current 20% credit for certified historic structures but modified so the credit is allowable over a 5-year period based on a ratable share (20%) each year.

Other Provisions of Interest

Excise Tax on Excess Tax-Exempt Organization Executive Compensation

- Follows Senate provision, with modifications.