NEW TAX LAW OFFERS BIG SURPRISE DEDUCTION FOR MOST REAL ESTATE PROFESSIONALS

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Six months after the whirlwind enactment of the Tax Cuts and Jobs Act of 2017, most Americans remain unimpressed. In a recent CBS News poll, fewer than 30 percent thought the new plan would help them or their family. Yet, according to the White House, 82 percent of all middle-income households will receive a tax cut. Obviously, there is a disconnect.

For millions of self-employed real estate professionals, including agents and brokers, one of the missing pieces of the puzzle is a brand new deduction that few taxpayers know about, and fewer still understand. Meet the 20 Percent Deduction for Qualified Business Income.

The centerpiece of the new tax law is a reduction in the corporate tax rate from 35 to 21 percent. Proponents of the plan knew, however, that nine out of ten businesses in America are not organized as corporations. Rather, they are pass-through businesses such as partnerships, limited liability companies, S corporations, or most common of all, individual entrepreneurs who own their own businesses. Self-employed independent contractors such as real estate agents are perfect examples.

Knowing that these Main Street businesses would not appreciate a Wall Street-only business tax cut, Congress included a similarly robust tax cut in the form of a special 20 percent deduction. But the problem is that many of the self-employed and other pass-through business owners are not yet aware of the deduction and how it applies to them.

The great news for most agents and brokers is that the 20 percent deduction is available to them if their taxable income for the year is below a certain threshold. For married taxpayers filing a joint return, this income limit is $315,000. For everyone else, it is half this amount, or $157,500. Even better, a partial deduction may be claimed for incomes of up to $415,000 (joint returns) or up to $207,500 (everyone else).

For owners with incomes above the thresholds, the deduction is much more complex and uncertain. But for most entrepreneurs, rather than providing a special lower tax rate for business income, the provision simply offers the 20 percent deduction on certain income from a "qualified trade or business." This is defined as every enterprise except for a specified list of a dozen or so prohibited businesses that includes health, law, accounting, brokerage services, and consulting. Providing services to an employer as an employee does not count.

It is presently unclear how these restrictions are going to be applied to those engaged in real estate brokerage with incomes above the thresholds. The Internal Revenue Service is feverishly working on guidance to answer this and other questions, which is expected this summer.

The bottom line is that a very high percentage of real estate professionals will fall under the income limits, and will find a new, hefty deduction awaiting them come tax time next year. And this year's estimated tax payments can be reduced to take it into account. are

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