

## Tax Cut and Jobs Act, Real Estate Applications

### **Mortgage Interest Deductions (For taxpayers who itemize)**

- The mortgage interest deduction for existing mortgages of up to \$1 million (for principal residence and second homes, combined) taken out before December 15, 2017, will not be affected. Homeowners may also refinance mortgage debts existing on December 14, 2017, up to \$1 million and still deduct the interest, so long as the new loan does not exceed the amount of the mortgage being refinanced.
- For any new loans as of January 1, 2018, (for principal residence and second homes, combined) the deduction will be limited to interest on \$750,000 of principal.
- The interest on home equity loans will only be deductible if the proceeds are used to substantially improve the residence.

### **Property Tax Deductions (For taxpayers who itemize)**

Under prior law, taxpayers who itemize may take a deduction for State and Local income taxes, sales tax and property tax (SALT). Under the Act, the maximum amount that may be deducted for all of the SALT categories put together, in any combination, is limited to \$10,000. The \$10,000 limit is the same for both individual filers and those who file joint returns.

### **Sale of Principal Residence – Exclusion of Gain**

The Act does not change the \$250,000 for single filers and \$500,000 for joint returns exclusions from capital gains tax for the sale of a principal residence when the homeowner has owned and lived in the home for two of the last five years.

### **Capital Gains**

The Act retains the current long-term capital gains rate of 15% generally, but 20% on those in the highest tax bracket. Depreciation recapture for real property remains at 25%.

### **Qualified Business Income Deduction**

The Act creates an off the top (above the line) deduction of 20% of qualified business income, subject to certain provisions. It will be available not only to certain pass-through entities, S corporations and Limited Liability Companies, but also for certain sole proprietors, such as independent contractors. Many real estate licensees may be able to take advantage of this provision. There are income limitations of \$157,500 for single taxpayers and \$315,000 for joint filers (which phase out over the next \$50,000 for single filers and \$100,000 for joint filers). Thereafter, the deduction is based on a formula that looks at wages paid and depreciable business property.