The new tax reform bill, which was signed into law by President Trump in late December, will be effective for the 2018 tax year. The National Association of REALTORS® has put together a useful summary to help you understand how the law affects homeowners and the real estate industry. Below, I have shared direct excerpts from that summary about a few of the major provisions affecting current and prospective homeowners.

Tax Rate Reductions

- The new law provides generally lower tax rates for all individual tax filers. While this does not mean that every American will pay lower taxes under these changes, many will.
- The tax rate schedule retains seven brackets with slightly lower marginal rates of 10%, 12%, 22%, 24%, 32%, 35% and 37%.

Exclusion of Gain on Sale of a Principal Residence

- The final bill retains current law – a significant victory that NAR achieved.

Mortgage Interest Deduction

- The final bill reduces the limit on deductible mortgage debt to $750,000 for new loans taken out after December 14, 2017. Current loans of up to $1 million are grandfathered and are not subject to the new $750,000 cap. Neither limit is indexed for inflation.
- Homeowners may refinance 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.
- The final bill repeals the deduction for interest paid on home equity debt through December 31, 2025. Interest is still deductible on home equity loans (second mortgages) if the proceeds are used to substantially improve the residence.
- Interest remains deductible on second homes, but subject to the $1 million/$750,000 limits.

Deduction for State and Local Taxes

- The 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. This $10,000 limit applies for both single and married filers and is not indexed for inflation.
- The final bill also specifically precludes the deduction of 2018 state and local income taxes prepaid in 2017.

Standard Deduction

- The final bill provides a standard deduction of $12,000 for single individuals and $24,000 for joint returns. The new standard deduction is not indexed for inflation.

Click here to view the full NAR summary about what the new tax law means for homeowners and real estate professionals.

None of the information in the NAR report is intended as tax advice, so please consult your tax adviser for additional guidance.

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