New Tax Laws…the Good and the Not So Good

Here is a brief summary of the new tax laws as they relate to real estate:

The mortgage interest deduction has been lowered: The tax bill allows taxpayers with existing mortgages to continue to deduct interest on a total of $1 million of mortgage debt for a first and second home. For new buyers, the $1 million limit drops to $750,000. Mortgage interest on home equity loans or second mortgages will no longer be deductible unless the funds are used to "substantially improve the property".

Rules for 1031 like-kind property exchanges will remain the same for real property. Unfortunately deductions for automobiles, artwork and construction equipment have been repealed. The state and local tax deduction now has a cap: you will now only be allowed to take an itemized deduction of up to $10,000 for the total of state/local property taxes, income or sales tax.

Home sellers who turn a profit keep their tax break: Homeowners who sell their house for a gain will be able to exclude up to $500,000 (or $250,000 for single filers) from capital gains, so long as they are selling their primary home and have lived in it for two of the past five years.

The deduction for moving expenses is gone: there may be exceptions for members of the military but most people will no longer be able to deduct the cost of moving, even when they move for work.

Almost everyone is now exempt from the estate tax. Before tax reform, few estates were subject to the estate tax, which applies to the transfer of property after someone dies. Now, even fewer people have to deal with it. The amount of money exempt from the tax – previously set at $5.49 million for individuals and $10.98 million for married couples – has been doubled.

The new laws will first be applied to 2018 taxes. How will these changes affect the primary and secondary home real estate markets? Only time will tell. Stay tuned!