Tax Reform Victories for Housing

The tax reform bill signed into law by President Donald Trump on Dec. 22 will provide tax relief for hard-working families and create a more favorable tax climate for small business. NAHB worked hard throughout the legislative process to make sure the final bill included key provisions that support the housing industry. Changes within the Tax Cuts and Jobs Act took effect for the tax year that began Jan. 1, 2018. Major provisions of the law include:

Mortgage interest deduction. Retains the mortgage interest deduction and the deduction for second homes, but reduces the mortgage interest cap from $1 million to $750,000.

State and local property taxes. Allows taxpayers to deduct up to $10,000 of state and local taxes.

Capital gains exclusion. Maintains existing law that allows home owners to exclude up to $250,000 (or $500,000 for married couples) in capital gains on the profit from the sale of a home if they have lived in the house for two of the last five years.

Private activity bonds. Retains private activity bonds (PABs), which will enable the Low Income Housing Tax Credit to maintain its effectiveness as the most indispensable tool for the production of affordable housing.

Alternative Minimum Tax. Eliminates the Alternative Minimum Tax (AMT) for corporations and increases the AMT exemption amounts and phase-out thresholds for individuals.

Pass-through deduction. Allows most home builders with pass-through income to deduct up to 20% of that income based on wages or on wages plus a capital element.

Business interest deduction. Provides the taxpayer a choice of making a one-time election for a deduction limited to 30% of adjusted gross income; or for real estate, a 100% deduction for business interest, but with certain trade-offs.

Multifamily depreciation. Gives the taxpayer the choice of taking 27.5-year or 30-year depreciation, depending on how they elect to treat their business interest.

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