

2018 TAX REFORM

Provisions of the Tax Cuts and Jobs Act Affecting Current & Future Home Owners



The following is a general description of changes in the tax code that could affect current and future homeowners. This is only a general description and a tax professional should be consulted for all tax situations.

TAX RATE REDUCTIONS

Maintains seven individual income tax brackets, but lowers most rates: 10%, 12%, 22%, 24%, 32%, 35%, and 37%.

The act retains the current-law maximum rates on net capital gains (15% maximum rate; 20% for those in the highest tax bracket; 25% rate on "recapture" of depreciation from real property).

Lowers the corporate tax rate to 21% from 35%.

STANDARD DEDUCTION

The act increases the standard deduction from \$6,350 to \$12,000 for individuals; from \$12,700 to \$24,00 for married couples filing jointly; from \$9,350 to \$12,000 for head-of-household filers.

MORTGAGE INTEREST DEDUCTION

The act reduces the limit on deductible mortgage debt to \$750,000 for new loans taken out after December 14, 2017. Current loans 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 mortgage debts existing on December 14, 2017, up to \$1 million, and still deduct the interest, as long as the new loan does not exceed the amount of the mortgage being refinanced.

The act repeals the deduction for interest paid on home equity debt through December 31, 2025. Interest is still deductible on home equity loans (or 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.

LIKE-KIND EXCHANGES

The act retains the current Section 1031 Like Kind Exchange rules for real property. It repeals the use of Section 1031 for personal property, such as art work, auto fleets, heavy equipment, etc.

DEDUCTION FOR STATE AND LOCAL TAXES

The legislation allows individuals to deduct an aggregate of \$10,000 of state and local government taxes (SALT) for property, sales or income tax. Previous bills limited the SALT

deduction to only property taxes. This \$10,000 limit applies for both single and married filers and is not indexed for inflation.

The act also specifically precludes the deduction of 2018 state and local income taxes prepaid in 2017.

ALTERNATIVE MINIMUM TAX

Retains the Alternative Minimum Tax (AMT), but increases the amount of income exempt for individuals and repeals corporate AMT.

PASS-THROUGH RELIEF

The legislation creates a new tax deduction of 20 percent for pass-through businesses. For taxpayers with incomes above certain thresholds, the 20 percent deduction is limited to the greater of:

- (a) 50% of the W-2 wages paid by the business, or
- (b) 25% of the W-2 wages paid by the business, plus 2.5% of the unadjusted basis, immediately after acquisition, of depreciable property (which includes structures, but not land).

REIT dividends and distributions from publicly traded partnerships are not subject to the wage restriction.

Estates and trusts are eligible for the pass-through benefit.

Income from certain specified services businesses is ineligible (e.g., health, law, financial services, etc.).

See chart on reverse side for a quick reference to changes affecting current and future home owners.

Source: www.IRS.gov and www.ALTA.org



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Deductions in red signify changes that apply to taxable years beginning after December 31, 2016 and could possibly affect 2017 tax returns.

DEDUCTION	PRIOR LAW	NEW LAW
<p>*State & Local Tax Deduction <i>Effective Date - Applies to taxable years beginning after December 31, 2016</i> <i>*See IRS clarification on page 2.</i></p>	Unlimited	Foreign real property tax deductions are prohibited and amount of taxes for any taxable year is capped at \$10,000 (\$5,000 for a married individual filing a separate return).
<p>Standard Deduction <i>Effective Date - Applies to taxable years beginning after December 31, 2017</i></p>	\$6,350 - Individuals & Married filing separately \$12,700 - Married filing joint return \$9,350 - Head-of-household	\$24,000 - married filing joint return \$18,000 for head-of-household \$12,000 for all other taxpayers.
<p>Personal Deduction <i>Effective Date - Applies to taxable years beginning after December 31, 2017</i></p>	Allowed	Eliminated
<p>Child Tax Credit <i>Effective Date - Applies to taxable years beginning after December 31, 2017</i></p>	\$1,000 per qualifying child	\$2,000 per qualifying child
<p>Moving Expense Exclusion & Deduction <i>Effective Date - Applies to taxable years beginning after December 31, 2017</i></p>	Deduction for moving expenses incurred in connection with change in work place	Eliminated except for members of armed forces on active duty that move pursuant to military orders
<p>Mortgage Interest Deduction <i>Effective Date - Applies to taxable years beginning after December 31, 2017</i></p>	Capped at \$1,000,000	Capped at \$750,000
<p>Mortgage Interest Deduction for Second Homes <i>Effective Date - Applies to taxable years beginning after December 31, 2017</i></p>	Capped at \$1,000,000	Capped at \$750,000
<p>Home Equity Loan Deduction <i>Effective Date - Applies to taxable years beginning after December 31, 2017</i></p>	Capped at \$100,000	Not deductible unless the proceeds are used to substantially improve the property
<p>Capital Gains Exemption on Sale of Primary Residence <i>Effective Date - Applies to taxable years beginning after December 31, 2017</i></p>	Exclusion of up to \$250,000 (\$500,000 if married) of gain realized on sale or exchange of principal residence if lived in for 2 of last 5 years	No change
<p>1031 Like-Kind Exchanges <i>Effective Date - Applies to taxable years beginning after December 31, 2017</i></p>	Applied to all classes of property (e.g.. personal and real)	Limits non-recognition of gain to real property
<p>Deduction for Qualified Business Income of Pass-Through Entities including independent Contractors <i>Effective Date - Applies to taxable years beginning after December 31, 2017</i></p>	None	20% deduction of taxable income phased out above \$157,000 (\$315,000 if married) for brokerage services
<p>Depreciation Recovery Period for Real Property (Residential Rental) <i>Effective Date - Applies to taxable years beginning after December 31, 2017</i></p>	Recovery period is 27.5 years	No change