The Changing Landscape for Homeowners

The recently passed Tax Reform Law (2017 Tax Cuts and Jobs Act) was signed into law on December 22, 2017 and it overhauls the Internal Revenue Code and provides broad tax relief to workers, families and businesses of all sizes. There is also bucket of Extender Provisions (Bipartisan Budget Act of 2018) that was recently retroactively applied to Tax Year 2017 only and will not apply to 2018 unless Congress decides to

to underlying debt of up to $750,000 ($375,000 for married filing separately). The prior limit of $1 million continues to apply for:

- Debt incurred on or before December 15, 2017, and
- Refinancing existing debt that was incurred before December 15, 2017

If you enter into a binding contract before December 15, 2017, close before January 1, 2018 and purchase before April 1, 2018; the debt is treated as incurred before December 15, 2017.

For pre-December 15, 2017 debt that is **refinanced:**

- You can use the higher limit up to the balance due on the date of refinancing (i.e. if more money is taken out, new borrowing carries a $750,000 limit)
- The lower limit will apply if you extend the term of the loan (i.e. extend term from 15 to 20 years, $750,000 limit applies)

Under prior law, you could also deduct interest paid on **home equity debt**. There was a cap of $100,000 on the underlying debt and the proceeds could be used for any purpose. The IRS has recently indicated that the interest on home equity debt is still deductible (under a loan cap of $1 million (pre-2018) / $750,000 (post-2017)), as long as the loan proceeds are used to buy, build or substantially improve the taxpayer’s home that secures the loan (such as installing a new kitchen). Whereas, interest on the same loan that is used to pay personal expenses (like paying off credit cards) would not be deductible.

State & Local Tax Deduction

The itemized deduction claimed on Schedule A for state and local taxes is now limited to $10,000 ($5,000 for married filing separately) on the aggregate of the following items. There was no limit under prior law.

The new $10,000 limit is a big change in states with high taxes, such as California and New York. However, state and local taxes are an alternative minimum (AMT) tax adjustment and many taxpayers lost the value of the deduction if they paid AMT in the past. To the extent state and local taxes apply to the taxpayer's business, folks should remember to deduct those taxes on Schedules C, E or F and not on Schedule A. Also, when buying or selling a home, taxpayers can consider negotiating who covers the real estate taxes.

EXTENDER PROVISIONS GOING AWAY IN 2018

Mortgage insurance premiums

Under prior law, there was an itemized deduction for the amount you paid for mortgage insurance, which was considered interest for mortgage interest deduction purposes. Taxpayers can consider asking the mortgage company to drop the insurance if they have made timely payments for several years or possibly refinancing the loan altogether.

Energy related home improvements

Under prior law, homeowners who made energy efficient improvements to their homes like energy-saving roofs, windows, skylights and doors could claim a credit for 10% of amounts paid for qualified energy efficiency improvements and 100% of amounts paid for qualified energy property like, high-efficiency water heaters, air conditioning units, and furnaces for the taxpayer's principal residence. Going forward, homeowners can still take a credit for solar electric and solar water heating type improvements.

TAX REFORM MEASURES TO HELP OFFSET LOST DEDUCTIONS

Tax Rates Reduced

Under the new law, tax rates are being reduced and tax brackets are widened. Here is

personal exemption ($4,050 in 2017) for taxpayers, spouses and dependents is being eliminated.

The higher standard deduction may provide a planning opportunity for taxpayers to bunch deductions and itemize every other year to increase their deductions over a two year period.

BOLSTER YOUR ROLE AS A TRUSTED ADVISOR

The tax changes included in the tax reform act and extender law present tax practitioners with an opportunity to better serve and coach their clients. The services can range from answering questions and education clients to providing proactive tax planning, like running projections, looking at withholding allowances on Form W-4 and calculating 2018 estimated taxes.

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