BIZ VOICE

Five ways tax law affects homeowners

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Inside Advice

The Trump Tax Bill is now law. But with all the last-minute negotiation between the house and senate, the ink is just now dry on the final bill, and even once we think we understand the provisions, it will take years for the courts to interpret all its nuances. But there is one thing we know for sure – the bill will have a major impact on millions of American homeowners. And we are just now finding out what it all means.

Let's look at five provisions of the tax plan that will impact home owners and prospective home buyers.

But remember that neither I nor my CPA bride has actually read the law itself, so all this is sort of based on preliminary judgements and interpretations, and we'll know a lot more in a couple of months. That being said, there are several significant changes we need to talk about:

Mortgage interest deduction rules changed

The deduction for interest on debt used to purchase or improve your personal residence and/or secondary residence has been lowered from $1,100.000 to a total of $750,000. I think this will hurt high end buyers, but not much.

By eliminating the personal exemption and effectively doubling the standard deduction, the bill essentially raises the threshold for anyone to benefit from itemizing deductions. That makes the deductibility of home mortgage interest less beneficial to the first-time buyer, who will end up paying more to buy the same house.

Deductions for property taxes, state and local taxes

That deduction was previously unlimited and is now limited to $10,000 total.

This will hurt homeowners in high tax states like New York and California, while low tax states like Georgia and Florida will be unaffected.

In effect, taxpayers in lower tax states have been subsidizing the payment of monies to government in high tax states, and it was grossly unfair.

The impact will be to depress values in high tax environment states, and is likely to increase pressure on local governments to lower property taxes and income taxes. That's probably a good thing.

Deducting interest from home equity line of credit

HELOC was previously based on interest payments for any debt secured by your principal residence for up to $100,000, and could be used to finance any purchase for any reason.

But now, HELOC interest is considered part of the total debt on the residence, so it is subject to the $750,00 limit and, more importantly, the HELOC interest is now subject to the same rules. That means "debt shifting" is dead. No more buying a new car with your home equity loan and deducting all the interest on what truly is a car loan. Impact: By eliminating one of the benefits of ownership, it dims the attractiveness of owning a home at all levels.

Selling property

When you sell your principal residence, you can exclude capital gains on up to $250,000 per owner/occupant. Yes, you have to live there for at least two of the five years preceding the sale, but the old law allows a couple to exclude up to half a million dollars from taxation when they sell the family home. The big news is that there is no change In that area. Some members of Congress wanted to lower the exclusion amounts dramatically, but that would have negatively impacted our seniors and empty nesters, many of whom have their life savings tied up in their homes. The attempt to limit the exclusion failed.

Secondary residences

Finally. Some good news about the Tax Bill. There was a strong movement by some congressional leaders to remove the deduction for interest on secondary residences entirely, which would have been devastating to the vacation home industry and to home prices in resort communities.

Fortunately, it was added back in at the last second and made its way to the president's desk. So you dodged a bullet if you ever hope to have that dream home on St. Simons Island!

The bottom line

Homeowners and prospective buyers got a mixed bag from the Trump Tax Bill. And everything we just talked about is based on preliminary information I have gathered, so we really need to give analysts and accountants time to sort it all out.

But the best news is this: for most Americans, owning their own home is STILL likely to be the best investment they ever make.

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