Impact of New Tax Law on Real Estate

By Gary Washburn, President, and David Walker
Southland Regional Association of Realtors®

Realtors won multiple concessions during the recent tax debate in the fight to preserve the benefits of homeownership, yet what was signed into law is expected to yield adverse impacts in some markets, especially in states with high housing costs, such as California.

Realtor® Gary Washburn, 2018 SRAR President

Efforts by the National Association of Realtors, which spearheaded the campaign, helped save the exclusion for capital gains on the sale of a home and preserved the like-kind exchange for real property.

Many agents and brokers who earn income as independent contractors or from pass-through businesses will see a significant deduction on that business income.

Yet because of the changes made by the new law, NAR projected slower growth in home prices of 1-3 percent in 2018 even as low inventories nationwide continue to spur price gains.

However, some local markets, particularly in high cost, higher tax states, may see price declines as a result of the legislation's new restrictions on mortgage interest and state and local taxes.

"While the impact of this bill may not be as harmful in many parts of the country, here in California where the typical home costs two-and-a-half times the national home price, homeowners and would-be buyers will be hit especially hard," said Steve White, president of the California Association of Realtors.

"We are disappointed that Congress has passed tax reform legislation that puts home values at risk and dramatically undercuts the incentive to own a home," he said. "We hope we can work with Congress to make the necessary changes that will keep housing at the foundation of this great nation's economy."

It's always wise to consult a tax expert, yet here's a short list of the impact the new law could have on local residential real estate.

Interest Deduction

For decades homeownership was encouraged and made more affordable by allowing owners to reduce their taxable income by the amount of interest paid on a home loan.

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For homes purchased after Dec. 15, 2017, the deduction was reduced to interest on debt up to $750,000 from the prior $1 million standard.

It includes an exception if a home was under contract before Dec. 15 and closed escrow by Jan. 1, 2018.

It's noteworthy that the old $1 million limit will still apply for refinancing a home loan, treating the new loan as if it were originated on the old loan's date.

Property Tax

As of Jan. 1, the deduction homeowners claim for payment of California property tax and state and local taxes will be limited to $10,000.

The deduction had been unlimited under the old law.

Home Equity Debt

Owners no longer will be allowed to deduct the interest paid when borrowing against a home's built up equity.

A home equity line of credit could still be used to pay tuition or buy a boat, but lawmakers eliminated the tax advantage gained by deducting interest paid.

Capital Gain

The difference between the price originally paid to purchase a house and the price received when it is sold is known as capital gain. That difference is treated as taxable income.

In a major concession, the new law does not change the capital gain exclusion limits.

If a home is owned long enough, up to $500,000 of capital gain can be excluded as income, which means the seller does not have to pay federal income tax on that amount. The exclusion is limited to $250,000 for single individuals and married taxpayers who file their tax return separately.

Vacation Homes

Lawmakers considered disallowing deduction of interest paid on loans used to purchase a second home. The final version of the law retained the old standard for a primary residence and a second home, but reduced the amount of eligible mortgage debt to $750,000.

Military Moving Expenses

No longer can all taxpayers deduct some moving expenses when they must relocate for a new job.

The new law allows deduction of moving expenses only for members of the armed forces on active duty.

The Southland Regional Association of Realtors® is a local trade association with more than 9,800 members serving the San Fernando and Santa Clarita Valley. SRAR is one of the largest local associations in the nation.

2018 SRAR Inaugural Ball

The Southland Regional Association of Realtors will hold its 98th Inaugural Ball on Saturday, Jan. 27, to install Gary Washburn as president and swear in the 2018 leadership team.

Tickets for the event, which will be held in the Grand Ballroom of the Sheraton Universal Hotel, can be obtained at www.srar.com. Sponsors include:

- California Regional MLS
- Five Point Land/Valencia
- Franklin Loan Center
- Keller Williams/Encino-Sherman Oaks
- Old Republic Home Protection
- Spile, Leff & Goor LLP
- SUPRA

Optimism Among Renters Softening

Despite steady job creation, record stock market gains and faster economic growth in recent months, the number of people who believe now is a good time to buy or sell a home is dwindling.

That's according to the Housing Opportunities and Market Experience survey conducted during the fourth quarter of last year by the National Association of Realtors.

It also found that households are also less confident about the economy and their financial situation.

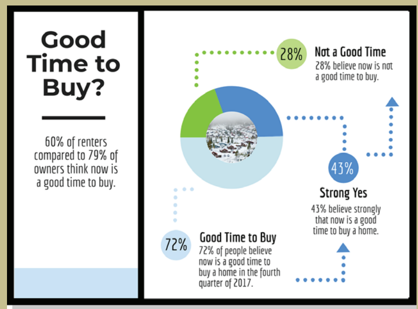
As 2017 came to a close, optimism among renters about buying a home appeared to be slightly softening.

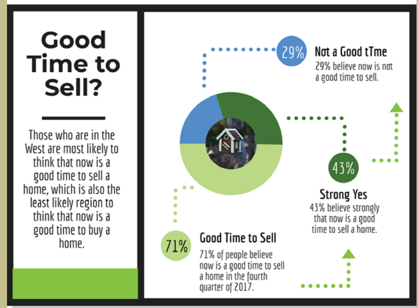
Overall, among the most optimistic about buying are current homeowners, households with incomes above $100,000 and those living in the more affordable Midwest and South regions.

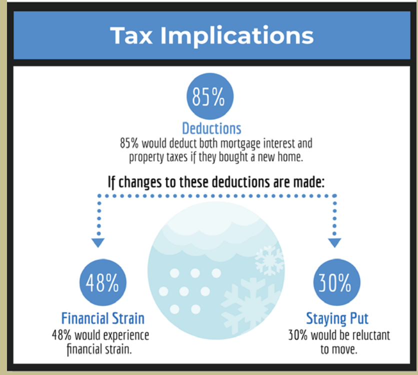
NAR Chief Economist Lawrence Yun said this fall's pitiful supply levels and weaker affordability conditions are likely casting doubt that now is a good time to buy. "The trifecta of faster economic expansion, robust hiring and low mortgage rates should be generating a surge in optimism and home sales as 2017 winds down," Yun said.

"Sadly, this is not the case. While overall demand remains high, it is not translating to meaningful sales gains," he said. "Too many prospective first-time buyers see few options within their budget and home prices that are rising much faster than their incomes."

Sales will fail to satisfy demand until markets nationwide see a steady increase in new and existing inventory.







"Until that happens," he said, "many would-be first-time buyers will be forced to continue renting."

Similar to previous quarters, households in the West were the most optimistic about selling a home and the least optimistic about buying.

"The good news for possible inventory gains heading into 2018 is the fact that a much larger share of homeowners compared to a year ago think it's a good time to sell," Yun said.

Yet the dearth of new home construction locally and tight existing inventory prompts prospective trade-up buyers to hesitate for fear they won't find a replacement home.

"This indecisiveness only exacerbates tight inventory conditions and slows housing turnover," Yun said.