Are You A Homeowner?

Owning a home can pay off at tax time.

The federal tax law signed by President Donald Trump Dec. 22, 2017 goes into effect for the 2018 tax year and generally does not affect tax filings for the 2017 tax year.

This article is a brief general summary of how the tax laws have changed.

For greater details on the New Tax Bill, please visit:

https://www.nar.realtor/tax-reform/the-tax-cuts-and-jobs-act-what-it-means-for-homeowners-and-real-estate-professionals

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The Tax Law Changes Affect Homeowners When Filing 2018 Taxes In 2019.

2017 tax return will not reflect the changes.

2018 tax return will reflect the changes.

The Standard Deduction Is Increasing.

This means fewer will have to itemize.

The standard deduction was $6,500 and now is $12,000 for single individuals.

The standard deduction was $13,000 and now is $24,000 for joint returns.

Homeowners will have to itemize to receive the interest deduction.

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Mortgage Interest Deduction Has A New Cap

If the mortgage debt is less than $750,000, people may deduct interest. Before the new law, the maximum was $1million mortgage debt. If there is a second home mortgage, the interest deduction follows the same rule.

If a mortgage existed on Dec. 14, 2017, it is grandfathered in on the $1 million maximum. Also, one can refinance that existing mortgage and keep deducting the interest on up to $1 million of debt. As long as the amount owed does not increase.

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Capital Gains Exclusion

The capital gains exclusion on a gain on the sale of a home stays the same. For most people who sell their primary residence, taxes are not owed on the profit up to $250,000 for single people, or $500,000 for married couples.

The only requirement for most people is that they must have lived in the home for at least two of the five years before selling.

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Student Loan Deduction

The student loan deduction is up to $2,500 if repaying it and that does not change. You do not have to itemize for it to apply in most cases.

Home Office Deduction

The Home Office Deduction remains for independent contractors.

But for employees who work from home, it's been repealed.

Prepaid Interest / Points

The prepaid interest (or points) paid when a person takes out a mortgage is still 100% deductible in the year it was paid if the person itemized their deductions.

If a home is refinanced and that money is used for home improvements, the points are deductible in the same year.

When you refinance to get a better rate or shorten the length of your mortgage, or to use the money for something other than home improvements, such as college tuition, you'll need to deduct the points over the life of your mortgage.

Example: You refinance into a 10-year mortgage and pay $3,000 in points. You can deduct $300 per year for 10 years.

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Investment Homes & Good News

Your mortgage interest and property tax deductions on your rental real estate remain unlimited.

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Private Mortgage Insurance - PMI

PMI expired with tax year 2016.

Residential energy tax credits for installing energy-efficient windows and doors, water heaters, furnaces, and insulation expired in 2016.

Congress didn't address either of these benefits in the new tax legislation. It's possible that lawmakers may retroactively reinstate these tax benefits in 2018.

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2017 Mortgage Interest Deduction

To claim the mortgage interest deduction, use Schedule A. Your mortgage must be secured by your primary or second home.

The mortgage can be for a house, trailer, or boat, as long as you can sleep in it, cook in it, and it has a toilet.

Interest you pay on a mortgage of up to $1 million or $500,000 if you're married filing separately, is deductible when you use the loan to buy, build, or substantially improve your home.

If you take on another mortgage and that included a second mortgage, home equity loan, or home equity line of credit, for improving your home or to buy or build a second home, that counts towards the $1 million limit. The interest is still deductible. If you use loans secured by your home for other things - like sending your kid to college - you can still deduct the interest on loans up $100,000 or $50,000 for married filing separately because your home secures the loan.

This rule changes for 2018, and the interest on such loans will no longer be deductible unless the proceeds are used to substantially improve a home.

Beginning with tax year 2018, the mortgage interest deduction cap is $750,000, and fewer people will likely itemize and take the MID because of the increase in the standard deduction.

For clarification visit this site:

https://www.nar.realtor/washington-report/irs-clarifies-home-equity-loan-interest-deductibility

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Home Equity Loan Interest Is Only Deductible for Home Improvements

If you're planning to redo a bathroom or a kitchen or fix up a fixer-upper, the interest on new home equity loans, home equity lines of credit, and second mortgages will still be deductible, but only up to the maximum amount (for all mortgages) of $750,000.

The new rules refer to "substantial" home improvements, though the rule makers didn't define "substantial." Talk to your tax pro.

The rules no longer allow you to use home equity loans to get tax-deductible financing for such things as consumer debt and tuition.

However, if you have an existing home equity loan (approved before Dec. 15, 2017) and the proceeds were used to substantially improve your home, the interest will remain deductible, so long as you don't exceed the total cap.

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State and Local Tax Deductions Are Capped

Through 2017, these deductions were unlimited. Starting with tax year 2018, state and local taxes, including property and income or sales taxes, are capped at a total of $10,000 combined.

BTW, talk with your tax preparer if you prepaid your 2018 property taxes in 2017 in hopes of maxing out your deductions before the tax law change. Whether it's actually deductible depends.

If you had a 2017 property tax bill in hand, that means the tax was assessed and you should be able to deduct it with your 2017 taxes if you itemize. If your local taxing authority said that it would accept prepayments, but the tax hadn't yet been assessed - just estimated - the payment likely isn't deductible on your 2017 tax returns.

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Casualty Losses Have Been Pared Back

Casualty losses for such things as a home burglary or a fire are no longer deductible. To claim a casualty loss, the loss has to fall under a presidentially declared disaster, like a hurricane or earthquake.

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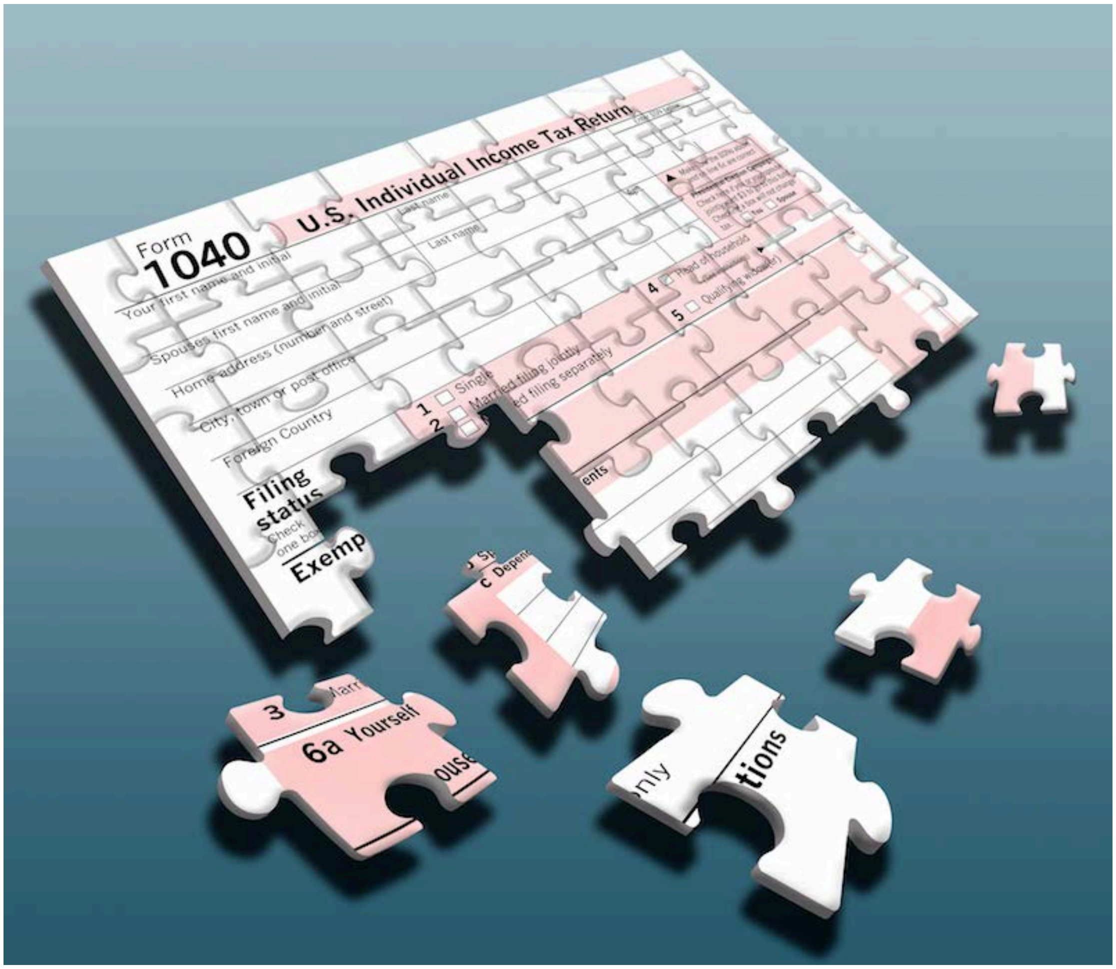

Moving Expense Deductions Are Limited to the Military

Unless you're in the military, moving expenses you pay out of pocket for a job relocation (at least 50 miles farther from your house than your current job) are no longer deductible. And you can no longer exclude employer reimbursements for moving expenses from your income.

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What's Not Changing

The capital gains exclusion on a gain on the sale of your home stays the same. When you sell your primary residence, you can make up to $250,000 in profit if you're single, or $500,000 if you're married, and not owe any taxes on those gains. Most people are eligible for this exclusion, but you must have lived in your home for at least two of the five years before you sell.

The student loan deduction - up to $2,500 if you're repaying - stays put, and you don't have to itemize to take it.

The home office deduction remains for independent contractors. But for employees who work from home, it's been repealed.

The prepaid interest (or points) you paid when you took out your mortgage is still 100% deductible in the year you paid it, if you itemize. If you refinance your mortgage and use that money for home improvements, any points you pay are also deductible in the same year.

But if you refinance to get a better rate or shorten the length of your mortgage, or to use the money for something other than home improvements, such as college tuition, you'll need to deduct the points over the life of your mortgage. Say you refi into a 10-year mortgage and pay $3,000 in points. You can deduct $300 per year for 10 years.

If you're a landlord, there's good news: Your mortgage interest and property tax deductions on your rental real estate remain unlimited.

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What's Been Gone for a While

The private mortgage insurance (PMI) deduction expired with tax year 2016. Ditto the residential energy tax credits for installing things like energy-efficient windows and doors, water heaters, furnaces, and insulation.

Congress didn't address either of these benefits in the new tax legislation. However, it's still possible that lawmakers may retroactively reinstate these tax benefits in 2018.

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