PACIFIC UNION INTERNATIONAL

The Urban Group
Real Estate Consultants

The Impact of the New Tax Law on Real Estate Ownership*
Rev 0.6

How will the new law tax impact:

1) Home owners who purchased their home before Dec 31, 2017 - No change
2) Home owners who purchased their home after Dec 31, 2017 -Law is changing
3) Investors who purchased their home before Dec 31, 20117 - No change
4) Investors who purchased their home after Dec 31, 20117 -Law is changing

The following tables summarizes the impact of the new tax law on real estate by category:

Owner Occupied	**Old**	**New**	**Comments**
Interest deductions (loans, HELOC)	Up to $1M + 100K on HELOC, second home OK	Up to $750K, no HELOC, second home OK. Existing homes and refinance of them retain the $1M level	New law effective 1/1/18
On sale - IRC121	Yes, min 24m in last 60m Cap gains - Federal 15% - State 9.3% - Surcharge 3.8%	No change for Real estate, but cannot exchange other business assets	IRC121 + 1031 Exchange is allowed and conversion between the two
State income & local taxes (county property taxes)	Full if not subject to AMT (SALT, medical, HELOC interest, various other employee business & investment expenses unlimited	Itemized deduction limited to $10K, standard deductions increase to $12K/single, $24K for couple	The deduction of the unlimited amount of state and property taxes were eliminated
AMT	Income meeting the AMT threshold could not deduct county property taxes	exemption was raised & phaseout of exemption will start at $1M.	

- The near doubling of the standard deduction (from $12.7K to $24K), and the reduction of the deductibility of state taxes and mortgage interest, will have the unintended consequence of reducing the incentive for people to buy rather than rent

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Investment Property	Old	New	Comments
Interest deductions	allowed	No change	
Property taxes deductions	Allowed	No change	
1031 Exchange	allowed	No change for real estate	IRC121 + 1031 Exchange is allowed and conversion between the two
State & local tax	Unlimited	Unlimited	
Depreciation	Residential Improvements over 27.5 years	property owners opting to use the real estate exception to the interest limit must depreciate over 30 years, 20 years for qualified interior improvements. Can also get 50% deduction in the first year on certain items, such as roof , carpet, etc.	
Deducting losses incurred in an active trade or business from wage income	Limited to $150K income and up to $25K adjustment	No change	
On sale	1.Recupture 2. Federal Cap Gain 3. NIIT 4. State	No change	

- By putting all rental properties under a passthrough entity (LLC or partnership), the taxpayer can get a write off of up to 20% on his net income. So, if your net income (after all expenses including depreciation) is $50k, they will get to write off up to $10k. of course, one should weigh the benefit against the additional costs involved, such as set up fees for the new entity, annual fees to the state, extra tax prep fees, etc.

*** THIS IS FOR DEMONSTRATION PURPOSES ONLY, FOR YOUR SPECIFIC TAX AND LEGAL IMPACT YOU MUST CONSULT YOUR TAX AND LEGAL ADVISORS!!**

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The new tax brackets and standard deductions

Single Filers:

Prior Law		Tax Cuts and Jobs Act	
10%	$0 -$9,525	10%	$0 -$9,525
15%	$9,525 - $38,700	12%	$9,525 - $38,700
25%	$38,700 - $93,700	22%	$38,700 - $82,500
28%	$93,700 - $195,450	24%	$82,500 - $157,500
33%	$195,450 - $424,950	32%	$157,500 - $200,000
35%	$424,950 - $426,700	35%	$200,000 - $500,000
39.6%	$426,700+	37%	$500,000+
SD	$6,500	SD*	$12,000

Source: CAR 1/28

Married Filing Jointly:

Prior Law		Tax Cuts and Jobs Act	
10%	$0 -$19,050	10%	$0 -$19,050
15%	$19,050 - $77,400	12%	$19,050 - $77,400
25%	$77,400 - $156,150	22%	$77,400 - $165,000
28%	$156,150 - $237,950	24%	$165,000 - $315,000
33%	$237,950 - $424,950	32%	$315,000 - $400,000
35%	$424,950 - $426,700	35%	$400,000 - $600,000
39.6%	$426,700+	37%	$600,000+
SD	$13,000	SD*	$24,000

Source: CAR 1/28