

What homeowners need to know about the new tax law - AvvoStories

Tuesday, April 3 2018, 10:33 AM



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TAXES, MONEY, REAL ESTATE

Feb 12, 2018

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The thousand-page Republican [tax law](#) is expected to add \$1.4 trillion to the deficit (according to the [Joint Committee on Taxation](#)) and [may effectively kill Obamacare](#). With downsides like that, there must be some big upsides. Somebody must be benefiting from some serious tax cuts. But it isn't homeowners.

Mortgage interest deduction

If you bought your house before December 15, 2017, congratulations. You can still deduct the interest on mortgages.
https://www.evernote.com/Home.action?_sourcePage=qIXUTtATa6riMUD9T65RG_YvRLZ-1eYO3fqfRu0fynRL_1nukNa4gH1t86pc1SP&__fp=iq9cjAEGAA83yWPvui

If you bought your house before December 15, 2017, congratulations. You can still deduct the interest on mortgages valued up to \$1,000,000. Changes to the [mortgage interest deduction](#) don't affect you. That's a relief for deeply indebted homeowners in [expensive areas](#) like Seattle, Honolulu, or most of California. New homebuyers, however, will only be able to deduct interest on the first \$750,000 of a new mortgage. The new [mortgage](#) interest deduction cap could reduce their purchasing power or even put the dream of home ownership on hold for homebuyers in expensive markets. The impact of this change will be minimal in more affordable housing markets, as few new mortgages will top \$750,000 in those locales.

Home equity loan deduction

Homeowners accustomed to borrowing against their home equity to finance expenses like medical costs, vacations, or the purchase of a car are in for a rude surprise. They used to be able to deduct the interest on home equity loans valued up to \$100,000. [No more](#). The new tax law eliminates the deduction for interest *on both existing and new* home equity loans when the proceeds are used for purposes unrelated to [home improvements](#). Does that mean it's still possible to deduct the interest on a home equity loan used to improve your existing house? Maybe. It's still uncertain, but the new law [seems to allow](#) interest-deductible home equity lines of credit when (1) the loan is used for substantial home improvements, and (2) the combined total of the mortgage plus home equity loan is under \$750,000.

Property tax deduction

Deductions for the payments of state and local taxes (SALT) enable taxpayers to avoid being taxed twice on the same income and dampen the impact of high state and local tax burdens. As in the past, allowable SALT deductions in the new tax law include (1) state and local income taxes *or* sales taxes (but not both), and (2) state and local property taxes. However, the new tax law caps SALT deductions at \$10,000 total. So, homeowners who pay more than \$10,000 in state and local taxes will be unable to deduct the full amount of their SALT payments, which effectively means that they will lose part or even all of the value of their property tax deduction. Like other changes affecting homeowners, this one will mostly be felt by homeowners in high-tax, high cost-of-living states, such New York, New Jersey, and California – states that voted heavily for Hillary Clinton in the 2016 election. This has led to claims that the new tax law [targets](#) the Trump administration's political enemies, and blue states across the country are looking for [workarounds](#) to counteract the SALT cap. Homeowners impacted by the cap should keep an eye on changes in state [tax laws](#) in 2018.

Capital gains remain the same

The final tax bill made [no change](#) to the treatment of capital gains from the sale of a primary residence. Homeowners who have lived in their home for at least two of the past five years can still exclude \$250,000 (\$500,000, if married filing jointly) in capital gains from their home sale. However, with the new cap on mortgage interest deduction, they may be less likely to trade up than they would have been under previous tax law.

If you have questions about the way the new tax laws might affect you more specifically, [ask a question](#) on the Avvo Q&A forum or consult a [local tax attorney](#).

Tagged [capital gains](#), [home equity loan deduction](#), [Mortgage interest deduction](#), [property tax deduction](#), [state and local tax](#), [Tax Cuts and Jobs Act](#), [tax deduction](#), [tax plan](#)

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