

IN DECEMBER 2017 CONGRESS PASSED A MASSIVE TAX REFORM BILL CALLED THE TAX CUTS AND JOBS ACT (TCJA).

A few aspects of the TCJA affected homeowners and the tax incentives for owning a home. When homeowners filed their tax returns in 2019 (for the 2018 year), many may have noticed that owning a home is no longer as beneficial from a tax perspective as it used to be. Keep reading to see the effects of the TCJA on homeowners.

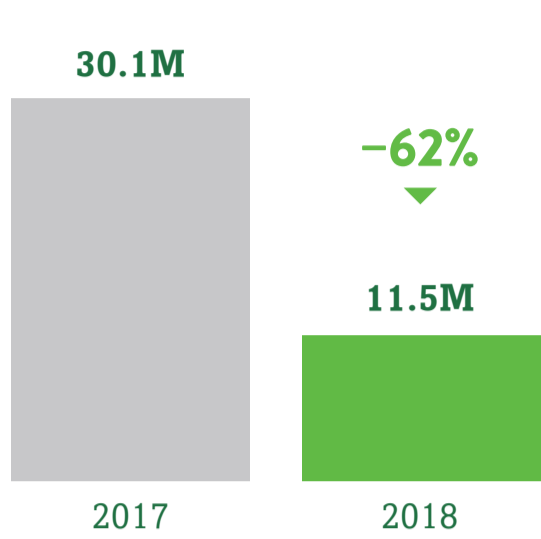
How the 2017 TAX CUTS AND JOBS ACT Affected Homeowners

DROP IN MORTGAGE INTEREST DEDUCTION CLAIMS

Homeowners who purchased a home after December 15, 2017, can only deduct interest on \$750,000 of their mortgage, compared to \$1M previously. This changes two things:

1. Makes it harder for a homeowner to reach the standard deduction threshold
2. Lowers the amount of interest that is deductible for the millions of homeowners who can still itemize.

Returns Claiming Mortgage Interest Deduction¹



Number of Itemizers²



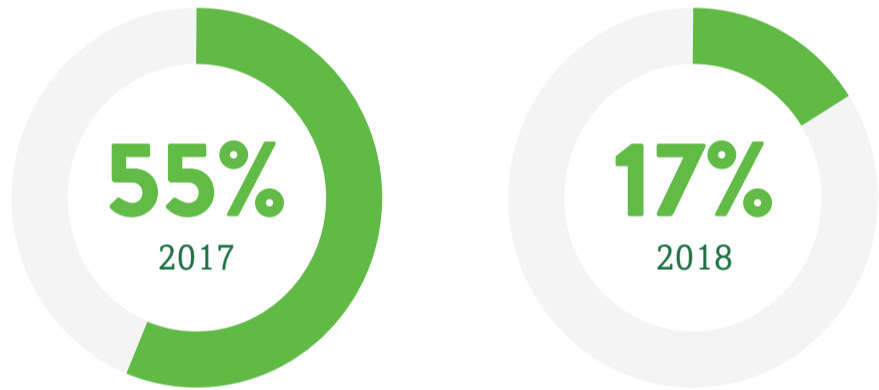
NUMBER OF ITEMIZERS SHRINKS

The new tax law capped state and local tax (SALT) deductions at \$10,000 and eliminated miscellaneous itemized deductions. This change, along with an almost doubling of the standard deduction, caused many people who itemized in the past to fall below the threshold and opt for the standard deduction. Millions of others, who are still itemizing, found that their taxes went up significantly because of the new limit.

MAJOR CUTBACKS FOR MIDDLE CLASS HOMEOWNERS

The large increase in the standard deduction threshold and the new \$10,000 cap on state and local taxes caused many filers in the income range of \$50k-\$200k, who itemized in past years, to opt for the standard deduction in 2018. A high percentage of current and potential homeowners fall in this “middle class” income range and as the numbers show, very few of them reap any tax incentive for owning a home.

Tax filers with AGI \$50K-200K claiming itemized deductions²



WHAT THIS MEANS FOR CURRENT AND PROSPECTIVE HOMEOWNERS

MILLENNIAL SINGLE HOMEOWNER
When Nisha Clark filed her itemized tax return she did not see a change in her mortgage interest deduction. Nisha was lucky to still receive some tax benefits for owning a home but those benefits are only about half of what she received before the TCJA.

PROSPECTIVE HOMEBUYER
As a renter, Matthew Garcia opted for the standard deduction and would likely do the same even if he purchased a home due to the increase in the standard deduction. The TCJA eliminates any tax incentive for Matthew to purchase a home.

FAMILY OF FOUR HOMEOWNER
The Allens opted to take the standard deduction this year. Despite their mortgage interest deduction remaining the same, the increase in standard deduction means they received no tax benefits for owning a home this year.



KEY TAKEAWAY

Of the three households, only one is getting a tax benefit for owning a home, and that one is cut in half from what it was before the new tax law. The tax incentive for households to move from renting to owning is nearly eliminated for most Americans.

WHAT NOW?

Homeownership is a pillar of strong communities and a major contributor to the economy, but the 2017 Tax Cuts and Jobs Act slashed tax incentives for owning a home, especially for millennials, middle-class, and minority households. We need policymakers to support the dream of homeownership and growth in our communities by passing laws that assist families and individuals on the path to owning a home.

LEARN MORE >

homeownershipmatters.realtor/taxes

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homeownershipmatters.realtor/homeowner-petition/



Sources

1. irs.gov/statistics/soi-tax-stats-irs-data-book
2. IRS - Mid-July Filing Season Statistics by AGI