BUSINESS

Real estate and tax deductions

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The ability to deduct state and local taxes (SALT) has historically been a valuable tax break for taxpayers who itemize deductions on their federal income tax returns. Unfortunately, the Tax Cuts and Jobs Act (TCJA) limits SALT deductions for 2018 through 2025. Here's important information that homeowners should know about the new limitation.

Old law, new law

Under prior law, in addition to being allowed to deduct 100% of state and local income (or sales) taxes, homeowners could deduct 100% of their state and local personal property taxes.

In other words, there was previously no limit on the amount of personal (nonbusiness) SALT deductions you could take, if you itemized. You also had the option of deducting personal state and local general sales taxes, instead of state and local income taxes (if you owed little or nothing for state and local income taxes).

Under the TCJA, for 2018 through 2025, itemized deductions for personal SALT amounts are limited to a combined total of only $10,000 ($5,000 if you use married filing separately status). The limitation applies to state and local 1) income (or sales) taxes, and 2) property taxes.

Moreover, personal foreign real property taxes can no longer be deducted at all. So, if you're lucky enough to own a vacation villa in Italy, a cottage in Canada or a beach condo in Cancun, you're out of luck when it comes to deducting the property taxes.

Who's hit hardest?

These changes unfavorably affect individuals who pay high property taxes because:

- They live in high-property-tax jurisdictions like New York and New Jersey,
- They own expensive homes (resulting in a hefty property tax bill), or
- They own both a primary residence and one or more vacation homes (resulting in bigger property tax bills due to owning several properties).

People in these categories can now deduct a maximum $10,000 of personal state and local property taxes — even if they deduct nothing for personal state and local income taxes or general sales taxes.

Selling your home?

There's good news if you're planning to sell a personal residence: The Tax Cuts and Jobs Act retains the home sale gain exclusion.

If you meet certain conditions, this valuable tax break allows you to exclude from federal income tax up to $250,000 of gain from a qualified home sale (or $500,000 if you're a married joint-filer). The home sale gain exclusion rules remain unchanged under the final version of the new tax law — even though both the House and Senate proposed restrictions on this tax break during tax reform negotiations.

If you have any questions please make sure to consult with your tax advisor.

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