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How tax reform bill could damage the value of your home

By Brittany De Lea Published December 04, 2017 Tax Reform FOXBusiness

Republicans are moving a tax reform bill through Congress that could have both short-and long-term impacts on housing prices and trends.

Real estate lobbies are concerned that bills crafted in the House of Representatives and the Senate eliminate incentives for homeownership and put the ability to purchase a home out of reach for many individuals.

Under the House proposal, the mortgage interest deduction (MID) would be capped at $500,000 for homes purchased in the future, as opposed to the current $1 million threshold. The House bill also keeps state and local property tax deductions, while eliminating the rest of the state and local tax (SALT) benefits.

The Senate, on the other hand, keeps the mortgage interest deduction cap steady at $1 million, but eliminates all SALT deductions.

Joseph Perry, partner at tax, accounting and advisory services firm Marcum LLP, told FOX Business that the differentials between the mortgage interest deduction caps are less problematic than eliminating the SALT benefits, which first-time homebuyers rely on.

By doubling the standard deduction to $24,000, as proposed in both versions of the bill, fewer Americans will take advantage of itemized deductions, like the mortgage interest deduction, because it would offer less benefit. Only wealthy people with large mortgages, or those in high-cost coastal states, would likely still profit from itemizing and claiming the mortgage interest deduction, which some see as a pathway to eventually phasing out the deduction entirely.

The real estate industry argues that with fewer people itemizing, there is less incentive to buy a new home or take out a new mortgage when taxpayers will reap the tax rewards regardless.

“By nearly doubling the standard deduction while eliminating most itemized deductions, the bill would destroy or at least cripple the incentive value of the mortgage interest deduction (MID) for the great majority of current and prospective homebuyers, and sap the incentive value of the property tax deduction for millions more,” the National Association of Realtors wrote in a statement in November.

Jeffrey Geida, who advises high-net worth individuals at Los Angeles-based law firm Weinstock Manion, told FOX Business that wealthy individuals may also put off buying a larger house, or a vacation house, if the proposed changes pass.

Perry said some of his wealthy clients have already discussed moving out of high-tax states into jurisdictions with no income taxes, like Florida, Nevada or Texas. That, he pointed out, could cause these high-earning individuals to put their houses for sale in the states they are exiting, inventory that could in turn sit on the market for quite some time: “Who’s going to be buying a large house in the high-tax states, and it not be deductible?” he asked.

Therefore, Perry said the housing industry could experience a glut in the “first time homebuyer’s [market] because they can’t come up with the money” or “the higher-end market because you’re going to see so much excess potential … inventory.”

However, some homeowners and potential homebuyers could stand to benefit: those living in the middle of the country.

“The middle of the country gets the same, or enhanced, benefits because people actually get more money in their pocket,” Perry said.

The National Association of Realtors said the proposed changes would cause home values “across America” to decline more than 10%, “and likely more in higher cost areas.”

Perry believes the first-time homebuyers market could rebound within a couple of years, if prices declined to a range within reach for prospective buyers.

The House passed its version of a tax reform bill in November and the Senate passed its legislation early Saturday. The two chambers will have to agree on one final bill, which will go through another round of votes before the it reaches President Donald Trump.