Tax Changes Around the Home-How the Tax Cuts & Jobs Act impacted three popular deductions

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Three recent tax law changes impact homeowners and home-based businesses. They may affect your federal income taxes this year.

The SALT deduction now has a $10,000 yearly limit. You can now only deduct up to $10,000 of some combination of (a) state and local property taxes or (b) state and local income taxes or sales taxes, annually. (Taxes paid or accumulated due to trade activity or business activity are exempt from the $10,000 limit.)[1,2]

If you have itemized for years and are continuing to itemize this year, this $10,000 cap may be irritating, especially if there is no state income tax or a very high state income tax where you live. In the state of New York, for example, taxpayers who took a SALT deduction in 2015 deducted an average of $22,169.[1,2]

Connecticut, New Jersey, and New York all recently passed laws in reaction to the new $10,000 limit, essentially offering taxpayers a workaround – cities and townships within those states may create municipal charities through which residents may receive property tax credits in exchange for charitable contributions.[2]

So far, the Internal Revenue Service is not fond of this. I.R.S. Notice 2018-54, released in May, warns that “despite these state efforts to circumvent the new statutory limitation on state and local tax deductions, taxpayers should be mindful that federal law controls the proper characterization of payments for federal income tax purposes.” Both the I.R.S. and the Department of the Treasury are preparing rules to respond to these state legislative moves.[2,3]

The interest deduction on home equity loans is not quite gone. The Tax Cuts & Jobs Act seemed to suspend it entirely until 2026, but this winter, the I.R.S. issued guidance noting that the deduction still applies if a home equity loan is arranged to help a taxpayer “buy, build or substantially improve” the involved house. So, you may still deduct interest on a home equity loan if your receipts show that the borrowed amount is used for a new 30-year roof, a kitchen remodel, or similar upgrades. Keep in mind that the Tax Cuts & Jobs Act lowered the limit on the total home loan amount eligible for the interest deduction each year – it is now set at $750,000. That cap applies to the combined home loans a taxpayer takes out for both a primary and secondary residence.[1,4,5]

The home office deduction is gone, unless you are self-employed. Before 2018, if you dedicated an area of your home solely to business use and defined it as your principal place of business to the I.R.S., you could claim a home office deduction on Schedule A. This was considered a miscellaneous itemized deduction. Unfortunately, the Tax Cuts & Jobs Act did away with miscellaneous itemized deductions. If you work for yourself, though, you can still claim the home office deduction using Schedule C, the form used to report income or loss from a business activity or a profession.[5]

Are you strategizing to maximize your 2018 federal tax savings? Are you looking for ways to legally reduce your federal and state tax obligations? Talk to a financial professional to gain insight and plan for this year and the years ahead.

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Citations.

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