Tax Reform Law Will Benefit Builders, Small Businesses

The landmark tax reform legislation took effect for the tax year starting Jan. 1, 2018. After significant improvements made during the legislative process, and due to the robust engagement efforts of NAHB and its membership, NAHB supports this final tax legislation.

The changes made to the tax code will help middle-class families, maintain the nation's commitment to affordable housing and ensure that small businesses are treated fairly relative to large corporations.

HIGHLIGHTS OF TAX REFORM LEGISLATION
Supports Middle-Class Families

The legislation supports the American Dream of homeownership and strengthens opportunities for Main Street home builders to add much-needed housing inventory to the market.

- Retains the mortgage interest deduction and the deduction for second homes, but reduces the mortgage interest cap from $1 million to $750,000.
- Allows taxpayers to deduct up to $10,000 of state and local taxes, including property taxes and the choice of income or sales taxes.
- Maintains existing law that allows home owners to exclude up to $250,000 (or $500,000 for married couples) in capital gains on the profit from the sale of a home if they have lived in the house for two of the last five years.
- Retains seven tax brackets, with rates ranging from 10% to 37%. This will provide tax relief for individuals and small

businesses and represents a tax cut for most taxpayers.

Protects Affordable Housing Options

The new tax law retains private activity bonds (PABs), which will enable the Low-Income Housing Tax Credit to maintain its effectiveness as the most indispensable tool for the production of affordable housing. Without PABs, we would face the loss of more than 788,000 affordable rental units over the next decade.

Expands Economic Growth

NAHB economists predict that the new law will boost GDP growth over the next 10 years, while also rewarding work and promoting labor supply and wage growth.

Importantly, the bill helps address the housing market's severe inventory shortage with its reformed rule for businesses, allowing for greater investment and growth. This will help small builders buy land, obtain financing and build more homes over the next 10 years.

A healthy housing industry means more jobs and a stronger economy. Fully 15 percent of the U.S. economy relies on housing and nothing packs a bigger local economic impact than home building. In fact, three jobs are created with the construction of each new single-family home.

Small business provisions in the tax bill include:

- Retains existing carried interest rules, but assets must be held for three years.
- Allows most taxpayers with pass-through income to deduct 20% of that income based on wages or on wages plus a capital element.
- Provides real estate businesses a choice between the following:
    - Limiting their interest deduction to 30% of net income without regard to depreciation, amortization, and depletion. This distinction makes the limitation less restrictive than one based on adjusted gross income.

    - A 100% deduction for business interest, but with certain tradeoffs.
- Preserves the benefit for real estate investors to make tax-free exchanges of property, commonly referred to as “like-kind” exchanges.
- Gives the taxpayer the choice of taking 27.5- or 30-year multifamily depreciation, depending on how they elect to treat their business interest.

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