

NAR Issue Summaries

Federal Tax / State and Local Tax Deductions

NAR Committee:

Federal Taxation Committee

What is the fundamental issue?

Real property taxes, along with other state and local taxes paid, have traditionally been deductible for federal income tax purposes. According to the IRS, the average property tax deduction claimed in 2015 was \$5,014. In states with an income tax, the average state income tax paid was \$10,143. Without a State and Local Tax (SALT) deduction, taxpayers would be paying federal tax on funds already paid to state or local governments, which would be tantamount to double taxation.

The Tax Cuts and Jobs Act, enacted in December 2017, made some significant changes to the SALT deduction. The final bill allows an itemized deduction of up to \$10,000 for the total of state and local property taxes and income or sales taxes paid. This \$10,000 limit applies for both single and married filers and is not indexed for inflation. When the House and Senate bills were first introduced, the deduction for SALT was completely eliminated. The final version provided for the limited \$10,000 deduction. Thus, while it is far less beneficial than the prior law, the final bill represents a significant improvement over the original proposals.

I am a real estate professional. What does this mean for my business?

A limited SALT deduction will increase the costs of homeownership for those who have more than \$10,000 in combined state and local property and income or sales taxes. Moreover, because the limit is not indexed for future inflation, more current and prospective homeowners will be hurt by this limit each year. In addition, the marriage penalty that is inherent in the limitation could discourage some couples from marrying and is also unfair.

NAR Policy:

NAR strongly supports deductibility of state and local real estate taxes, as well as other state and local taxes paid.

Opposition Arguments:

The deduction for state and local taxes paid subsidizes irresponsible spending by certain states, and forces taxpayers in lower-tax jurisdictions to pay more federal tax.

Legislative/Regulatory Status/Outlook

In the wake of the Tax Cuts and Jobs Act's changes in the SALT deduction some policymakers in several high-tax states indicated they would attempt to pursue various "workaround" strategies to explore ways to keep the full amount of state and local taxes deductible for citizens of those states. These efforts were generally unsuccessful in materially restoring the deduction.

A number of bills have been introduced in both Houses of Congress to fully or partially restore the SALT deduction. So far, though, these bills have not made their way into legislation that has moved in both the House and Senate.

Current Legislation/Regulation (bill number or regulation)

None at this time.

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