NAR Report to the Board of Directors
Wyoming REALTORS®
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"OWN IT" is Elizabeth Mendenhall's motto for her year as the President of the National Association of Realtors and she has really lived up to it! Several new initiatives have already rolled out, including **The Hub**. The Hub is a community platform where NAR committees connect. It's a private, secure location where committee members can network and collaborate with each other year-round and have anytime access to those discussions via a computer or mobile device. Use of The Hub is limited to NAR committees, presidential advisory groups, advisory boards, work groups, and select other association leadership groups, as well as the staff who support those groups. Beginning with the 2018 committee year, The HUB replaces email, closed Facebook groups, and project management platforms — such as Basecamp — currently being used by these groups.

Another example of how President Mendenhall has reached out to NAR members was through the **"NAR Leadership Live From New York City"**. President Mendenhall, CEO Bob Goldberg, other members of the NAR Leadership Team, and REALTOR® leaders from the New York area discussed the real estate industry and took questions from members via Facebook. The program took place at Fox Studios New York and originally aired on Facebook Live on Feb. 12, 2018. The video is still available at www.nar.realtor.

President Mendenhall has out lined the following as

2018 NAR Strategic Priorities:

Define measurable increases in professionalism:

- Define what can be measured in increasing professionalism
- Further separate the REALTOR® from the real estate licensee in the consumer's mind
- Recognize those who seek out education and get involved in the industry

Increase in influence in an uncertain legislative, regulatory and political environment:

- Get more members to understand the connection between getting involved in advocacy and sustaining their business
- Further tap the power of the consumer in advocacy efforts
- Start in influencing other issues that impact real estate, in areas like technology

- Partner more with other organizations to broaden in influence
- Continue our path of increasing homeownership percentages, preserving the tax incentives on real estate and preserving the federal guarantee on mortgages

Take the management of real estate data to the next level:

- Competition and the demand for more data and analysis is forcing the management of real estate data to evolve
- We must look at all the options – changing the business model, partnering, consolidating, etc.
- Continue to educate the REALTOR® on how to interpret and communicate the data to strengthen the value proposition of the REALTOR® with consumers

Ensure the role of the REALTOR® is essential to the consumer:

- Consumers need a trusted advisor even as technology gives them access to more information
- REALTORS® must be relevant before, during and after the transaction

NAR Tax Reform Analysis

The National Association of REALTORS® (NAR) worked throughout the tax reform process to preserve the existing tax benefits of homeownership and real estate investment, as well to ensure as many real estate professionals as possible would benefit from proposed tax cuts. Many of the changes reflected in the final bill were the result of the engagement of NAR and its members, not only in the last three months, but over several years.

The final bill includes some big successes. NAR efforts helped save the exclusion for capital gains on the sale of a home and preserved the like-kind exchange for real property. Many agents and brokers who earn income as independent contractors or from pass-through businesses will see a significant deduction on that business income.

Major Provisions Affecting Current and Prospective Homeowners

Tax Rate Reductions:

- The new law provides generally lower tax rates for all individual tax filers. While this does not mean that every American will pay lower taxes under these changes, many will. The total size of the tax cut from the rate reductions equals more than $1.2 trillion over ten years.

- The tax rate schedule retains seven brackets with slightly lower marginal rates of 10%, 12%, 22%, 24%, 32%, 35%, and 37%.
- The final bill retains the current-law maximum rates on net capital gains (generally, 15% maximum rate but 20% for those in the highest tax bracket; 25% rate on “recapture” of depreciation from real property).

Exclusion of Gain on Sale of a Principal Residence:

- The final bill retains current law. A significant victory in the final bill that NAR achieved.

Mortgage Interest Deduction:

- The final bill reduces the limit on deductible mortgage debt to $750,000 for new loans taken out after 12/14/17. Current loans of up to $1 million are grandfathered and are not subject to the new $750,000 cap. Neither limit is indexed for inflation.
- Homeowners may refinance mortgage debts existing on 12/14/17 up to $1 million and still deduct the interest, so long as the new loan does not exceed the amount of the mortgage being refinanced.
- The final bill repeals the deduction for interest paid on home equity debt through 12/31/25. Interest is still deductible on home equity loans (or second mortgages) if the proceeds are used to substantially improve the residence.
- Interest remains deductible on second homes, but subject to the $1 million / $750,000 limits.

Deduction for State and Local Taxes:

- 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. This $10,000 limit applies for both single and married filers and is not indexed for inflation.
- The final bill also specifically precludes the deduction of 2018 state and local income taxes prepaid in 2017.

Standard Deduction:

The final bill provides a standard deduction of $12,000 for single individuals and $24,000 for joint returns. The new standard deduction is indexed for inflation.

- *By doubling the standard deduction, Congress has greatly reduced the value of the mortgage interest and property tax deductions as tax incentives for homeownership. Congressional estimates indicate that only 5-8% of filers will now be eligible to claim these deductions by itemizing, meaning there will be no tax differential between renting and owning for more than 90% of taxpayers.*

Major Provisions Affecting Real Estate Professionals

Deduction for Qualified Business Income:

Because the new tax bill greatly decreases the tax rate for corporations (from the prior law's 35% to just 21%), many Members of Congress believed that the business income earned by sole proprietors, such as independent contractors, as well as by pass-through businesses, such as partnerships, limited liability companies (LLCs), and S corporations, should also receive tax rate reductions. In addition to lower marginal tax rates, the final bill provides a significant up-front deduction of 20% for business income earned by many of these businesses, but with certain conditions.

Specifically, the bill limits the 20% deduction to non-personal service businesses. Essentially, a personal service business is one involving the performance of services in the following fields: Health, Law, Consulting, Athletics, Financial Services, Brokerage Services (not real estate), and "Any business where the main asset of the business is the reputation or skill of one or more of its employees or owners."

Most real estate agents and brokers will be considered in a personal service business and would thus not normally qualify for the 20% deduction. However, NAR was able to help secure a major exception (the personal service income exception) in the final bill that will make it possible for many real estate professionals to be able to take advantage of the deduction.

Independent contractors and pass-through business owners with personal service income, including real estate agents and brokers, with taxable income below the $157,500 or $315,000 thresholds may generally claim the full 20% deduction under the personal service income exception. Independent contractors and pass-through business owners with non-personal service income and total taxable income below these thresholds may also claim the full 20% qualified business income deduction. In addition, independent contractors (or other sole proprietors) with non-personal service incomes above these thresholds may also be able to claim a 20% deduction, but that deduction may be limited by the wage and capital limit exception.

Denial of Deductibility of Entertainment Expenses:

The final bill provides that no deduction is allowed with respect to:

- An activity generally considered to be entertainment, amusement, or recreation;
- Membership dues with respect to any club organized for business, pleasure, recreation or other social purpose, or
- A facility or portion of a facility used in connection with the above items.

- Thus, the provision repeals the present-law exception to the deduction disallowance for entertainment, amusement, or recreation that is directly related to (or, in certain cases, associated with) the active conduct of the taxpayer's trade or business.
- Taxpayers may still generally deduct 50 percent of the food and beverage expenses associated with operating their trade or business (e.g., meals consumed by employees on work travel).

Section 179 Expensing:

- The final bill increases the amount of qualified property eligible for immediate expensing from $500,000 (current law) to $1 million. The phase-out limitations are increased from $2 million to $2.5 million.
- The final bill expands the definition of qualified real property eligible for section 179 expensing to include any of the following improvements to nonresidential real property placed in service after the date such property was first placed in service: roofs; heating, ventilation, and air-conditioning property; fire protection and alarm systems; and security systems.
- The bill also significantly increases the amount of first-year depreciation that may be claimed on passenger automobiles used in business to $10,000 for the year in which the vehicle is placed in service, $16,000 for the second year, $9,600 for the third year, and $5,760 for the fourth and later years in the recovery period.

See you in Washington, DC!!