Tax Cuts and Jobs Act of 2017
TAX REFORM KEY CHANGES

CREDIT UNION TAX EXEMPTION STATUS

The Act does not change or alter the current credit union federal tax status in any way. Congress ensured preservation of the credit union tax status because of the importance of the credit union mission.

RETIREMENT ACCOUNTS

Despite efforts to create limitations on the availability of pre-tax contributions to 401(k) retirement plans, Congress decided to leave retirement plans largely untouched after receiving powerful pushback from taxpayers in all sectors of the economy. The Act did make some minor changes though, including changes to a rule regarding the ability to convert funds in traditional IRAs to Roth IRAs. Currently, taxpayers have the ability to convert funds from a pretax IRA to a post-tax Roth IRA and pay tax on the money that is converted. Taxpayers also currently have the ability to change their minds and undo this conversion through a process called re-characterization. The Act has repealed the rule allowing re-characterization of a Roth IRA back into a traditional IRA after a conversion.

MORTGAGE INTEREST TAX DEDUCTION

The mortgage interest deduction was maintained with modifications in the Act. Earlier in the year there had been discussions surrounding tax reform about completely eliminating or drastically altering the mortgage interest deduction altogether. The final Act will not affect current homeowners; it would allow them to continue to deduct the interest paid on up to $1 million of mortgage debt. New homebuyers will only be able to deduct the interest on up to $750,000 of their mortgage principle on home purchases scheduled to close on or after January 1, 2018. The new cap expires at the end of 2025.

It is important to note that the MITD only applies to those filers who opt not to take advantage of the new standard deduction, which is $12,000 for individuals and $24,000 for joint filers under the Act. Those individuals who opt to still itemize, will also be able to deduct up to $10,000 in state and local property taxes under the bill.

HOME EQUITY LOAN INTEREST DEDUCTION

Homes equity loans and lines of credit are a key source funding for homeowners. The Act limits the deductibility of interest paid on some home equity loans/lines of credit for loans beginning after December 31, 2017, depending on the purpose of the loan. The Internal Revenue Code currently distinguishes between "acquisition" debt, meaning loans to buy, build or substantially improve a main or second home, and other "home equity" debt. The Act does not alter this distinction, but eliminates the deduction of "home equity" debt and limits total "acquisition" debt to $750,000. Existing home equity lines of credit may also not be "grandfathered" into receiving the deduction. Additionally, beginning in 2018, any interest accrued on certain existing home equity loans/lines of credit may not be deductible. The suspension expires at the end of 2025.

STATE AND LOCAL TAX (SALT)

Current federal tax law allows for individuals who itemize their deductions to deduct the entirety of their state and local income taxes, sales tax, and property taxes from their federal income tax return. The Act removes the ability to deduct the entire amount by setting a cap for a maximum deduction of $10,000 combined for all state, local, and property taxes. This cap will take effect in tax year 2018 and remain in place until 2026.

SMALL BUSINESS LOAN INTEREST DEDUCTION

The Act preserves the deduction for interest on small business loans, including ones made by credit unions. Such loans are an essential source of credit for the individuals running America's small businesses, which are the backbone of our economy. These loans are also critical because they allow small businesses to meet many of their day to day cash flow needs. Small businesses benefit greatly from the ability to deduct the interest paid on these loans. The Act imposes new limitations on the deductibility of interest for certain entities, however, small businesses with average annual gross revenue that does not exceed $25 million will still be able to deduct interest paid or accrued on their small business loan.

CONCLUSION

Although tax reform legislation has passed and been signed into law, congressional leadership has indicated that they intend to work on a technical corrections bill to fix any errors that may be found in the Act and also move a tax extenders bill in early 2018 to address expiring programs.