

# NAR Issue Brief

## Real Estate Provisions in “Fiscal Cliff” Bill

On January 1, 2013 the Senate and House passed H.R. 8, legislation to avert the “fiscal cliff,” the bill will be signed by President Barack Obama on January 2, 2013.

Below are a summary of real estate related provisions in the bill.

### Real Estate Tax Extenders

- **Mortgage Cancellation Relief** is extended for one year to January 1, 2014
- **Deduction for Mortgage Insurance Premiums** for filers making below \$110,000 is extended through 2013 and made retroactive to cover 2012
- **Leasehold Improvements:** the 15 year straight-line cost recovery for qualified leasehold improvements on commercial properties is extended through 2013 and made retroactive to cover 2012.
- **Energy Efficiency Tax Credit:** the 10% tax credit (up to \$500) for homeowners for energy efficiency improvements to **existing homes** is extended through 2013 and made retroactive to cover 2012.

### Return of the “Pease” limitations on itemized deductions for high income filers

Under the agreement so called “Pease Limitations” that reduce the value of itemized deductions are permanently repealed for most taxpayers but will be reinstated for high income filers.

“Pease” limitations will only apply to individuals earning more than \$250,000 and joint filers earning above \$300,000. The thresholds are indexed for inflation so will rise over time.

Under the formula, filers gradually lose the value of their total itemized deductions up to a total of a 20% reduction.

First enacted in 1990, and named for the Ohio Congressman Don Pease who came up with the idea, the limitations continued throughout the Clinton years. The limitations were gradually phased out starting in 2003 and were completely eliminated in 2010-2012. **NAR has never had an official position on Pease limitations.** The reinstatement of these limits has far less impact on the mortgage interest deduction than a hard dollar deduction cap, percentage deduction cap, or reduction of the amount of MID that can be claimed.

### Capital Gains

Capital Gains rate stays at 15% for those the top rate of \$400,000 individual and \$450,000 joint return. After that, any gains above those amounts will be taxed at 20%. The 250/500k exclusion for sale of principle residence remains in place.

### Estate Tax

The first \$5 million dollars in individual estates and \$10 million for family estates are now exempted from the estate tax. After that the rate will be 40 percent, up from 35 percent. The exemption amounts are indexed for inflation.