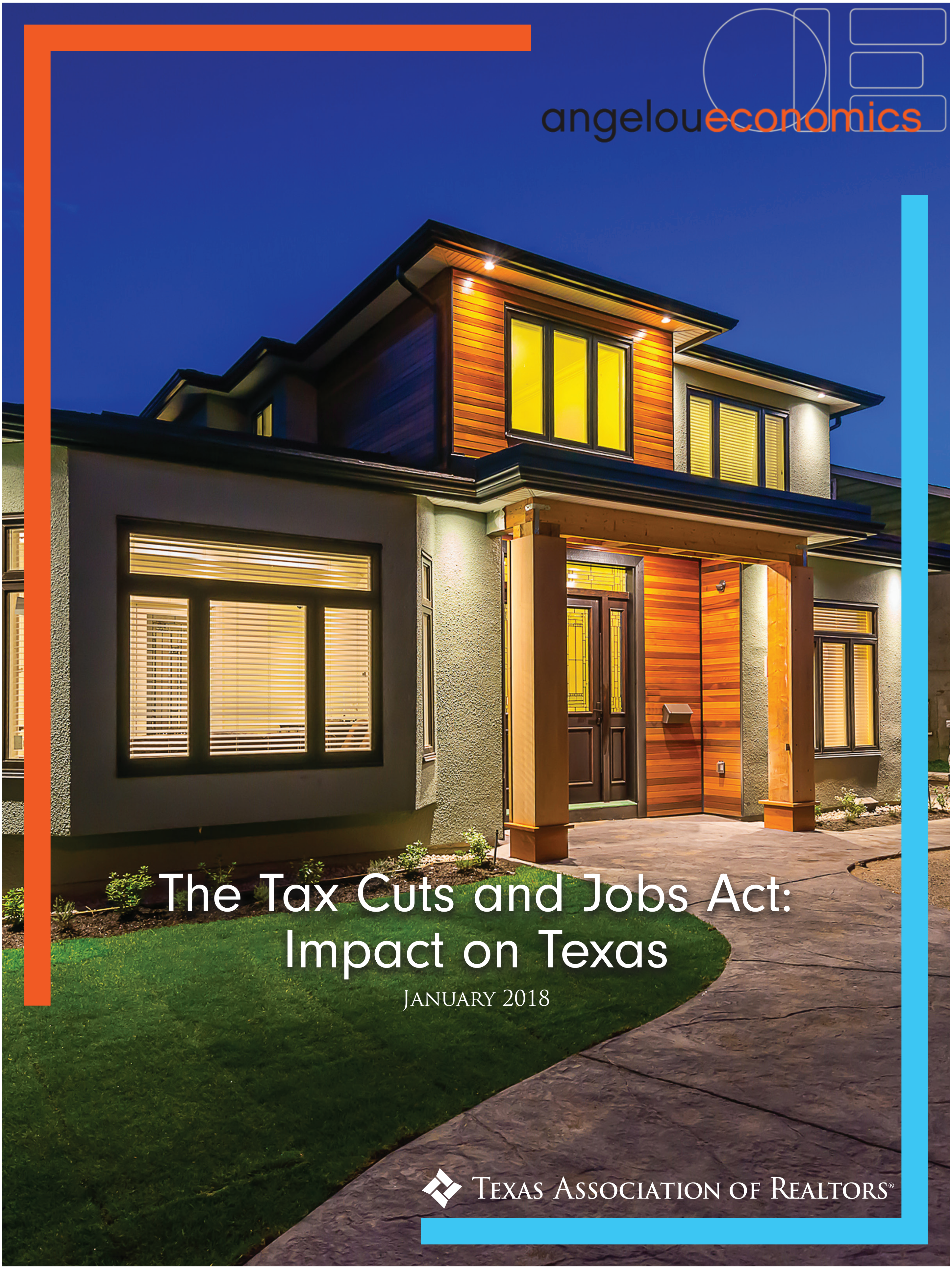
angeloueconomics



The Tax Cuts and Jobs Act: Impact on Texas

January 2018

Texas Association of Realtors®

[This page is intentionally left blank]

Table of Contents

[This page is intentionally left blank]

The Tax Cuts and Jobs Act

The Tax Cuts and Jobs Act

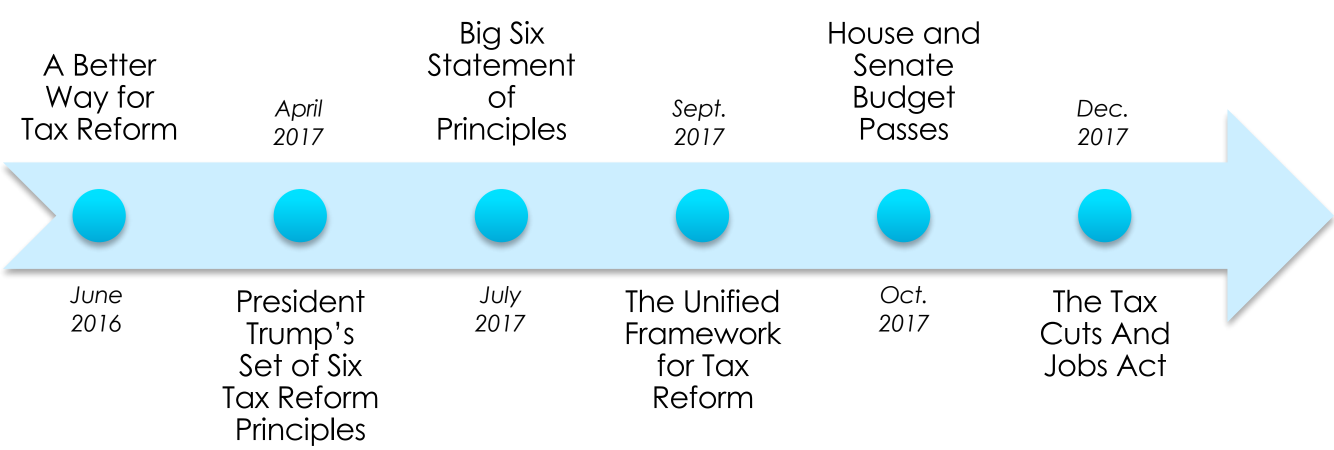
Introduction

The Tax Cuts and Jobs Act is the culmination of a multi-year tax reform effort led by GOP Lawmakers and the Trump White House. According to Speaker Paul Ryan, preparation for the newly minted law began back in 2011, and since, there have been numerous concepts, provisions, and bills that have been introduced, revised, scrapped, and even re-introduced. What remains is The Tax Cuts and Jobs Act, which was officially signed into law by President Trump on December 22, 2017.

Included in the new law are dozens of provisions which alter the way individuals and businesses will be taxed in the future. Many will find the new law to be beneficial, as it nearly doubles the standard deduction and reduces the tax rates levied on both individuals and businesses. In fact, according to the Tax Policy Center, 95% of taxpayers will pay less tax in 2018, and 91% will pay less tax in 2025 compared to the current law.

In order for widespread tax cuts to fit within congressional budgetary guidelines, many deductions and exemptions have been limited or removed entirely under the new tax framework. Historically, deductions for expenses like mortgage interest or local property taxes have encouraged economic activities like purchasing a home or making home improvements. The Tax Cuts and Jobs Act limits these deductions, among others, and weakens home-buying incentives afforded by the previous tax law.

Tax Reform Timeline



Sources: Speaker.gov, Tax Policy Center

The Tax Cuts and Jobs Act

The Relevant Pieces

AngelouEconomics has been retained by the Texas Association of REALTORS® to examine the effects that The Tax Cuts and Jobs Act will have on individual Texans, Texas homeowners, and federal collections from the state of Texas. Given this scope, **provisions of The Tax Cuts and Jobs Act pertaining to business reform are not considered in this study.**

For the sake of clarity, below are the details of The Tax Cuts and Jobs Act that are considered:

Tax Relief Provisions
Reduce Income Tax Rates to 10%, 12%, 22%, 24%, 32%, 35%, and 37%
Increase the Standard Deduction
Increase the Alternative Minimum Tax Exemption Amounts and Phase-out Threshold
Reform the Child Tax Credit
Double the Estate, Gift, and Generation-Skipping Tax Exemption Amount

Tax Raising Provisions
Reform Deductions and Exclusions
Repeal Personal Exemptions
Adopt Alternative Inflation Measure
Eliminate the Affordable Care Act Individual Mandate

Please Note: Due to Senate Budget rules, The Tax Cuts and Jobs Act's official name is actually, "An Act to provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018". However for the sake of simplicity, this study will continue to refer to the passed legislation as The Tax Cuts and Jobs Act.

Sources: Joint Committee on Taxation, Tax Policy Center

[This page is intentionally left blank]

Fiscal Impact

Fiscal Impact

Introduction

The following section provides a fiscal analysis of The Tax Cuts and Jobs Act and its impact on Texas taxpayers through 2025, which is the year in which all individual provisions considered in this study are set to expire. To construct these figures, AngelouEconomics relied on national budgetary estimates provided by the United States Congress Joint Committee on Taxation (JCT) in publications: JCX-67-17 and JCX-68-17. Please see the appendix for additional information about these publications and the JCT. Figures specific to Texas have been extrapolated using 2015 IRS data.

Changes to Tax Provisions

Only provisions pertaining to household incomes are considered, and the subsequent analysis pertains exclusively to Texas taxpayers. The first five provisions will reduce tax receipts, while the remaining four provisions will raise federal revenues.

Tax Relief Provisions

1. Reduce income tax rates to 10%, 12%, 22%, 24%, 32%, 35%, and 37%
2. Increase the standard deduction
3. Increase the alternative minimum tax (AMT) exemption amounts and phase-out thresholds
4. Reform the child tax credit
5. Double the estate, gift, and generation-skipping tax exemption amount

Revenue Raising Provisions

1. Reform deductions and exclusions
2. Repeal personal exemptions
3. Adopt alternative inflation measure
4. Eliminate the Affordable Care Act individual mandate

Tax Relief *2018-2025*
$231.1 Billion

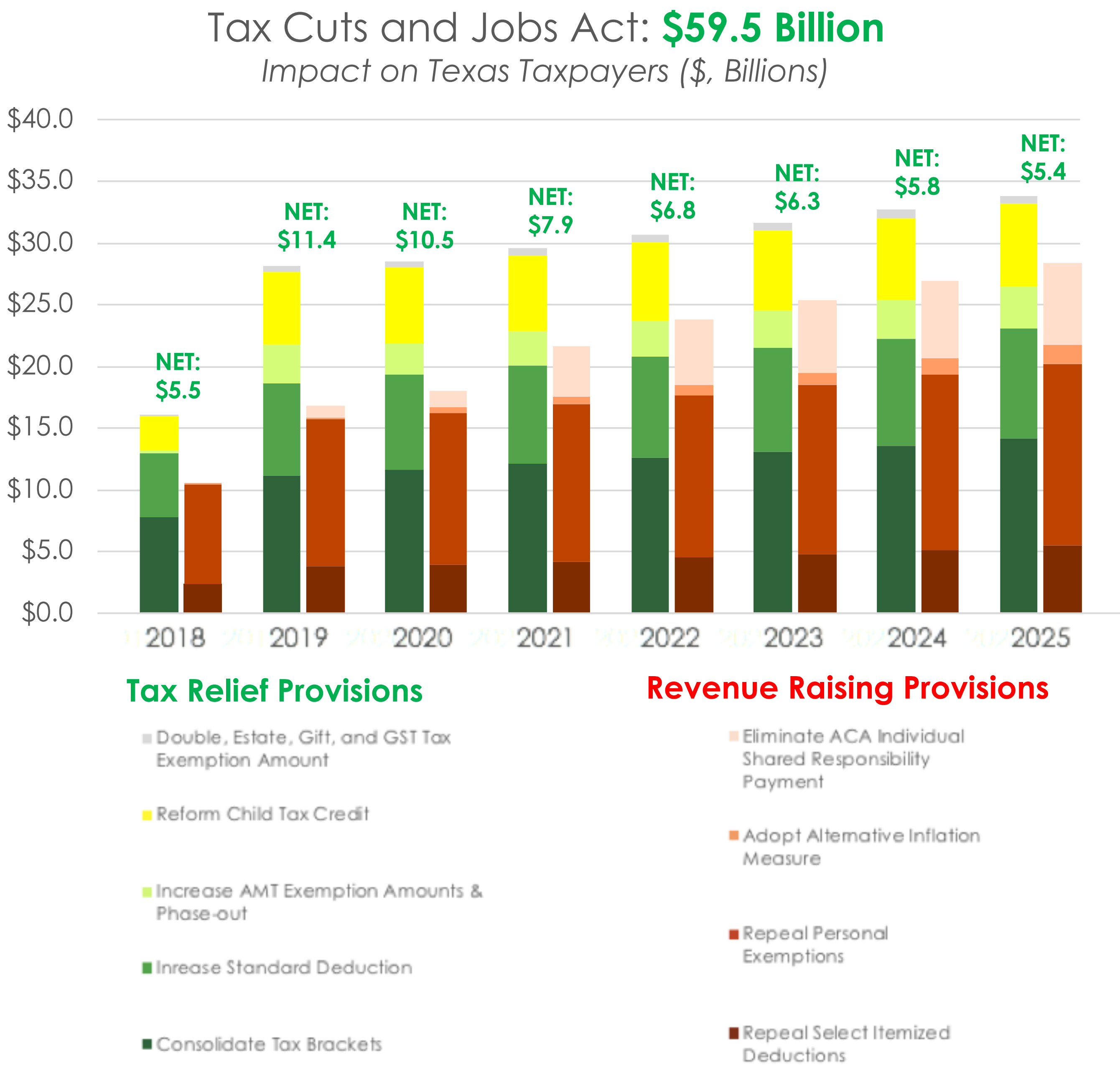
New Revenue *2018-2025*
$171.6 Billion

Sources: Joint Committee on Taxation, IRS, AE

Fiscal Impact

Aggregate Impact of The Tax Cuts and Jobs Act

Combined, these provisions will save Texas households **$59.5 billion in tax expenditures through 2025.** The largest one-year amount of federal tax relief will be afforded to Texas taxpayers in 2019, where net relief will reach $11.4 billion. In total, the **largest provider of tax relief will come in the form of reduced income tax rates**, while the **largest source of new revenue will come as a result of repealed personal exemptions.**



Sources: Joint Committee on Taxation, AE

Fiscal Impact

Aggregate Impact of The Tax Cuts and Jobs Act

Net Impacts by Provision *2018-2025*	
Provision	***Net Tax Impact***
Reduce Income Tax Rates	$96.1 billion
Increase the Standard Deduction	$62.5 billion
Increase AMT Exemption and Phase-out Threshold	$21.1 million
Reform the Child Tax Credit	$47.2 billion
Double the Estate, Gift, and Generation-Skipping Tax Exemption	$4.3 billion
Reform Deductions and Exclusions	$34.4 billion
Repeal Personal Exemptions	$100.5 billion
Adopt Alternative Inflation Measure	$6.3 billion
Eliminate the ACA Individual Mandate	$30.4 billion
Net Tax Impact	**$59.5 billion**

**Please Note: Net Tax Impact does not add due to rounding*

Sources: Joint Committee on Taxation, IRS, AE

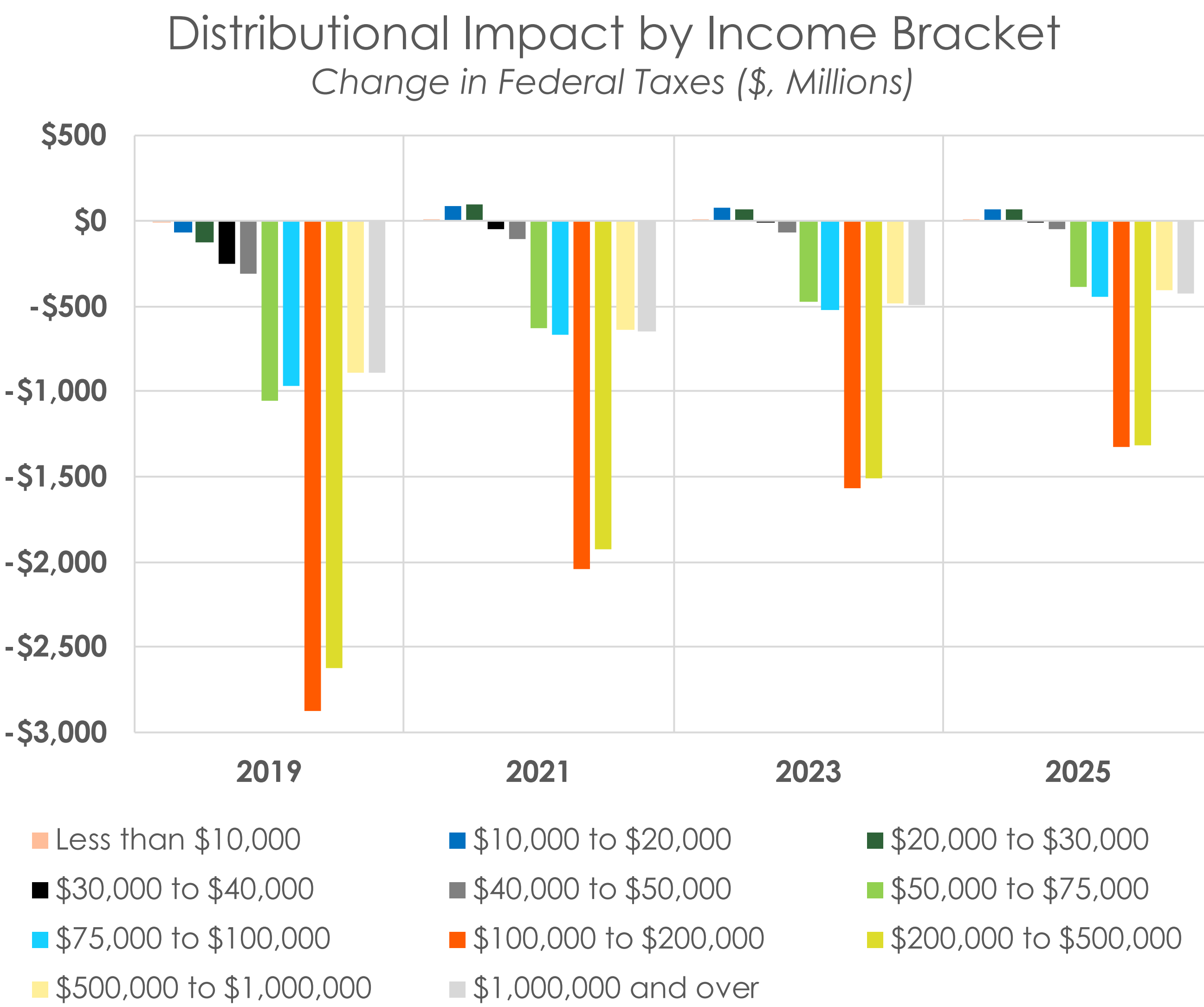
Fiscal Impact

Distributional Impact of The Tax Cuts and Jobs Act

The Tax Cuts and Jobs Act will decrease taxes for the majority of income brackets in Texas through 2025.

- **Across each year, the $100,000 to $200,000 income bracket will experience the sharpest declines in taxes.**

- **For the lowest three income brackets (Less than $10,000; $10,000 to $20,000; and $20,000 to $30,000), taxes will increase in 2021and remain above current levels through 2025.**



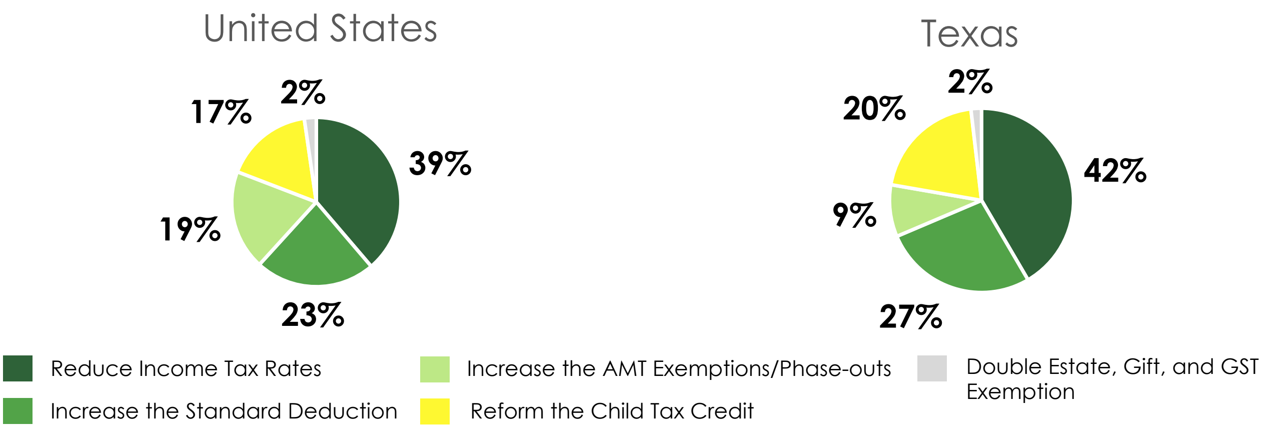
Sources: Joint Committee on Taxation, AE

Fiscal Impact

Comparison to National Fiscal Impact

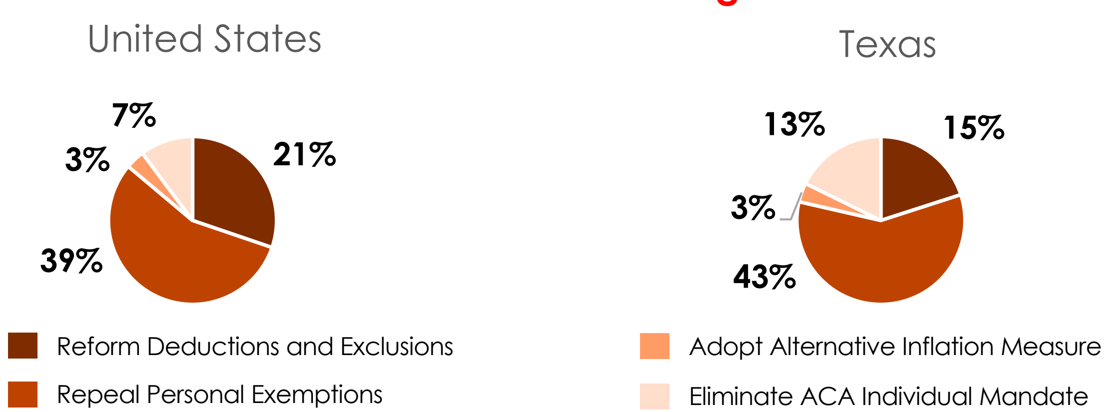
In total, **The Tax Cuts and Jobs Act will impact Texas taxpayers differently than it will impact the nation as a whole**. This is due to different taxpayer characteristics at the state level. To illustrate these differences, consider the share of each provision to the overall tax relief and revenue raising at the national and state level.

Share of Total Tax Relief Provisions



In Texas, a smaller percentage of taxpayers utilize the AMT, so increasing its exemption amounts will provide less relief at the state level. Further, a greater share of tax relief at the state level will result from consolidating income tax rates, increasing the standard deduction, and reforming the child tax credit.

Share of Total Revenue Raising Provisions



Among revenue raising provisions, Texas taxpayers will pay a greater share of taxes as a result of the repeal of personal exemptions and eliminating the ACA individual shared responsibility payment. Additionally, repealing select itemized deductions will not be as drastic to taxpayers at the state level.

Sources: Joint Committee on Taxation, AE

Fiscal Impact

Tax Relief Provision 1: Reduce Income Tax Rates

The Tax Cuts and Jobs Act will reduce income tax rates across each filing status. While the reduction does not guarantee that every Texan will pay lower taxes, the vast majority will. Under the new law, there will still be seven tax brackets with the following marginal rates: 10%, 12%, 22%, 24%, 32%, 35%, and 37%.

In total, reducing income tax rates will save Texas households $96.1 billion through 2025.

Tax Brackets under The Tax Cuts and Jobs Act			
Tax Rate	***Single***	***Married***	***Head of Household***
10%	$0 – $9,525	$0 – $19,050	$0 – $13,600
12%	$9,525 – $38,700	$19,050 – $77,400	$13,600 – $51,800
22%	$38,700 – $82,500	$77,400 – $165,000	$51,800 – $82,500
24%	$82,500 – $157,500	$165,000 – $315,000	$82,500 – $157,500
32%	$157,500 – $200,000	$315,000 – $400,000	$157,500 – $200,000
35%	$200,000 – $500,000	$400,000 – $600,000	$200,000 – $500,000
37%	$500,000 and over	$600,000 and over	$500,000 and over

Estimated Tax Relief: **$96.1 Billion**

Reduced Income Tax Rates ($, Billions)

Sources: Joint Committee on Taxation, IRS, AE

Fiscal Impact

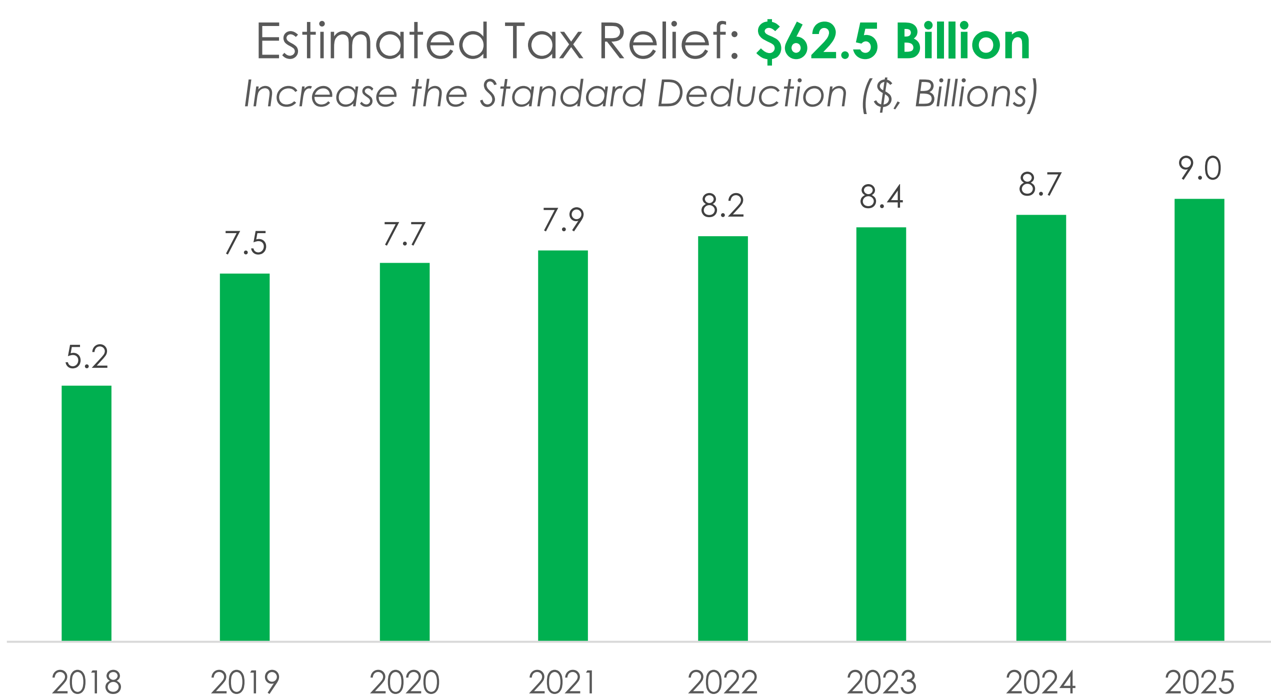
Tax Relief Provision 2: Increase the Standard Deduction

The Tax Cuts and Jobs Act nearly doubles the standard deduction across each filing status, which will provide substantial tax relief across each income level. A summary of the standard deduction changes can be found below:

Changes to the Standard Deduction			
	Single Filers	**Married Filers**	**Head of Household Filers**
2017	$6,350	$12,700	$9,350
Tax Cuts and Jobs Act	$12,000	$24,000	$18,000

Effectively, this provision has reduced the value of the mortgage interest and property tax deduction as tax incentives for home ownership. At the national level, only 5-8% of filers will remain eligible to claim these deductions by itemizing. Please refer to the section titled "Break Even Home Price" for a further discussion of this effect.

In total, increasing the standard deduction will save Texas households $62.5 billion through 2025.



Sources: Joint Committee on Taxation, IRS, National Association of Realtors, AE

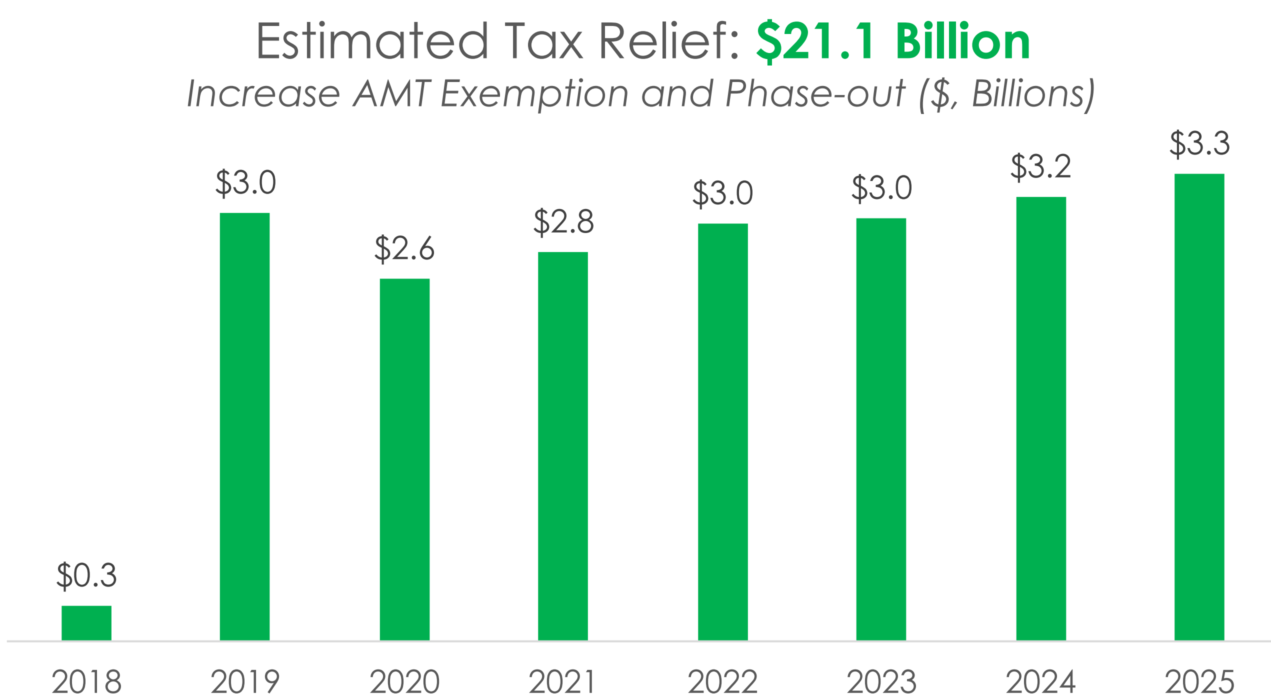
Fiscal Impact

Tax Relief Provision 3: Increase Alternative Minimum Tax (AMT) Exemption Amounts and Phase-out Threshold

The purpose of the alternative minimum tax is to ensure that wealthy taxpayers pay a minimum amount of tax, since certain tax benefits can significantly reduce an individual's tax burden. Initially, it appeared as though the AMT would be scrapped altogether, but lawmakers settled on increasing the AMT exemption amounts and phase-out thresholds.

To provide some context, the new AMT benchmarks will continue to affect roughly 9,500 taxpayers in Texas, which is a steep reduction from the approximately 240,000 that paid the tax in 2015.

In total, the changes to the Alternative Minimum Tax will save Texas households $21.1 billion through 2025.



Sources: Joint Committee on Taxation, IRS, AE

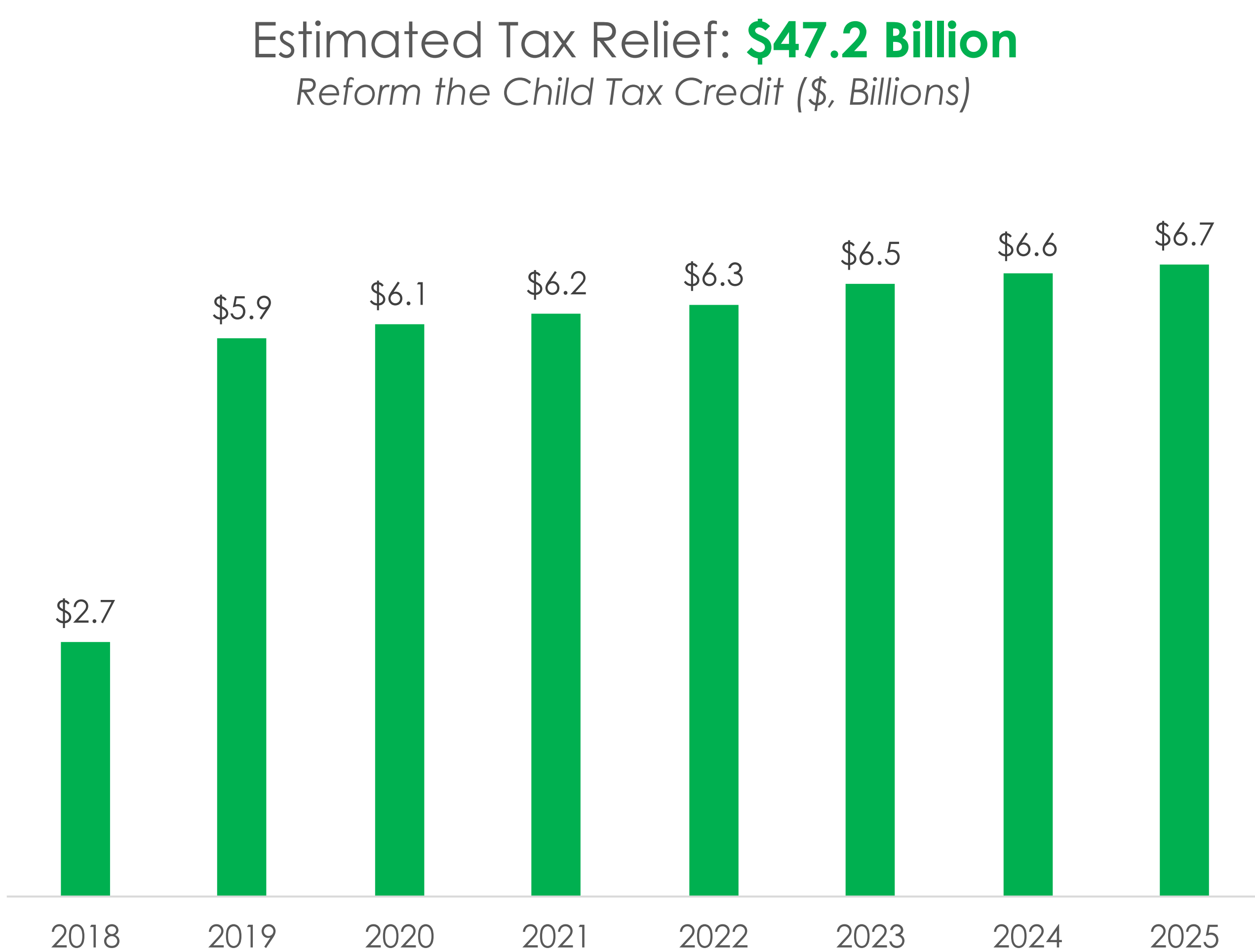
Fiscal Impact

Tax Relief Provision 4: Reform the Child Tax Credit

The Tax Cuts and Jobs Act increases the child tax credit from $1,000 to $2,000, refundable up to $1,400. These changes will provide Texans $49.4 billion through 2025.

Further, The Tax Cuts and Jobs Act requires a valid Social Security number for each child in order to claim the refundable and non-refundable portions of the credit. This will save the federal government $2.2 billion through 2025.

Altogether, reforming to the child tax credit will save Texas households over $47.2 billion through 2025.



Sources: Joint Committee on Taxation, IRS, AE

Fiscal Impact

Tax Relief Provision 5: Double the Estate, Gift, and Generation-Skipping Tax Exemption Amount

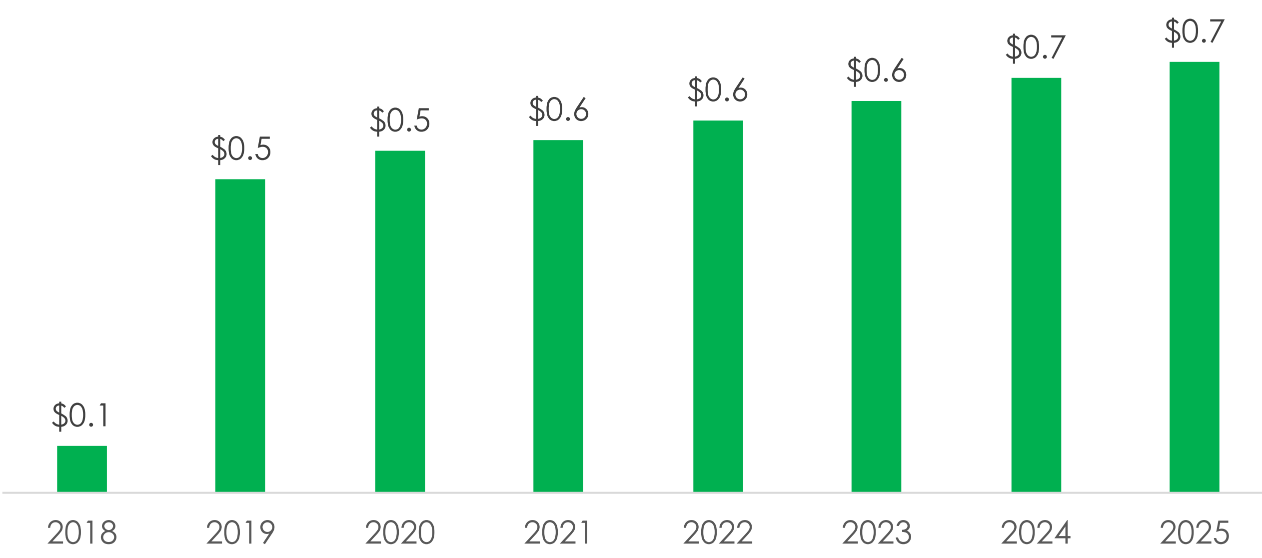
The Tax Cuts and Jobs Act will double the exemption amount for the estate, gift, and generation-skipping taxes (GST). In 2017, the exemption amount for these taxes was $5.6 million for individuals. Under the new law, the exemption will increase to $11.2 million per individual and $22.4 million for married couples. Effectively, wealth transfers below the new thresholds will no longer be subject to estate, gift, and generation-skipping taxes and provisions.

According to the Tax Policy Center (TPC), there were roughly 11,300 estate tax returns filed in 2017, of which 5,500 actually paid any tax. Under the new law, the TPC estimates that less than 4,000 estates will file for the tax, and 1,800 or fewer will end up owing any money (nationwide).

In total, doubling the estate, gift, and generation-skipping tax will save Texas households $4.3 billion through 2025.

Estimated Tax Relief: **$4.3 Billion**

Double the Estate, Gift, and GST Exemption ($, Billions)



Sources: Joint Committee on Taxation, IRS, Tax Policy Center, AE

Fiscal Impact

Revenue Raising Provision 1: Reform Deductions and Exclusions

Under the previous tax code, there were a number of targeted deductions available to reduce tax liabilities. These included deductions for medical and dental expenses, other taxes paid, interest paid, charitable contributions, casualty and theft losses, job expenses, and other miscellaneous deductions.

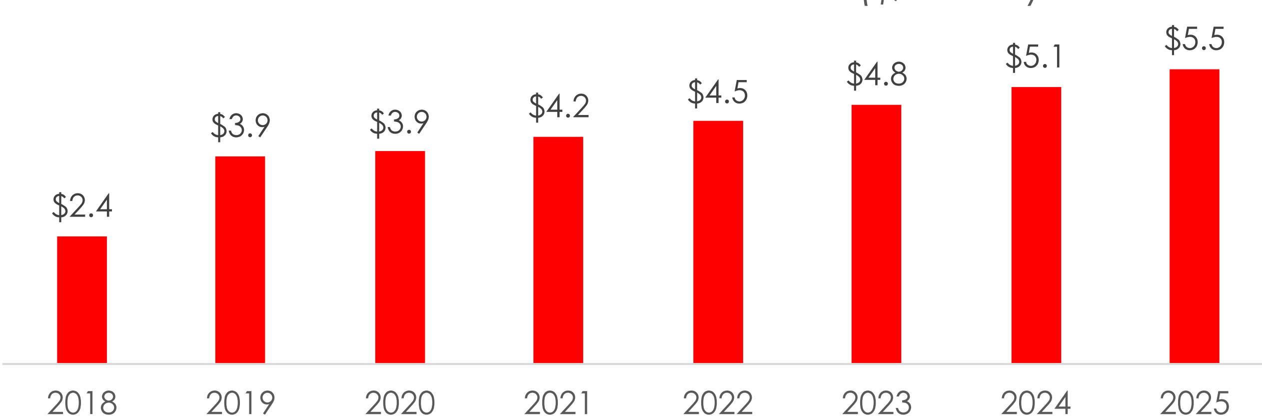
Many deductions will be reformed or removed entirely under The Tax Cuts and Jobs Act. This analysis considers the following changes:

- Repeal deduction for taxes not paid or accrued in a trade or business, except for up to $10,000 in state and local taxes (SALT).
- Reduce the limit on deductible mortgage interest debt to $750,000 for new loans (after 12/14/17). Loans written before 12/14/17 up to $1 million are grandfathered into this provision.
- Retains the ability to refinance and deduct the interest on mortgage debts existing on 12/14/17 up to $1 million.
- Repeal the deduction for interest paid on home equity debt through 12/31/25.
- Retains the ability to deduct interest on home equity loans (i.e. second mortgages) if the proceeds are used for home-improvement.
- Retains the ability to deduct mortgage interest paid on secondary residences, subject to the $750,000 and $1 million limits.
- Repeal non-disaster casualty losses.
- Repeal certain miscellaneous expenses.

In total, reforming deductions and exclusions will cost Texas households $34.4 billion through 2025.

Estimated Increase in Revenue: **$34.4 Billion**

Reform Deductions and Exclusions ($, Billions)



Sources: Joint Committee on Taxation, IRS, National Association of Realtors, AE

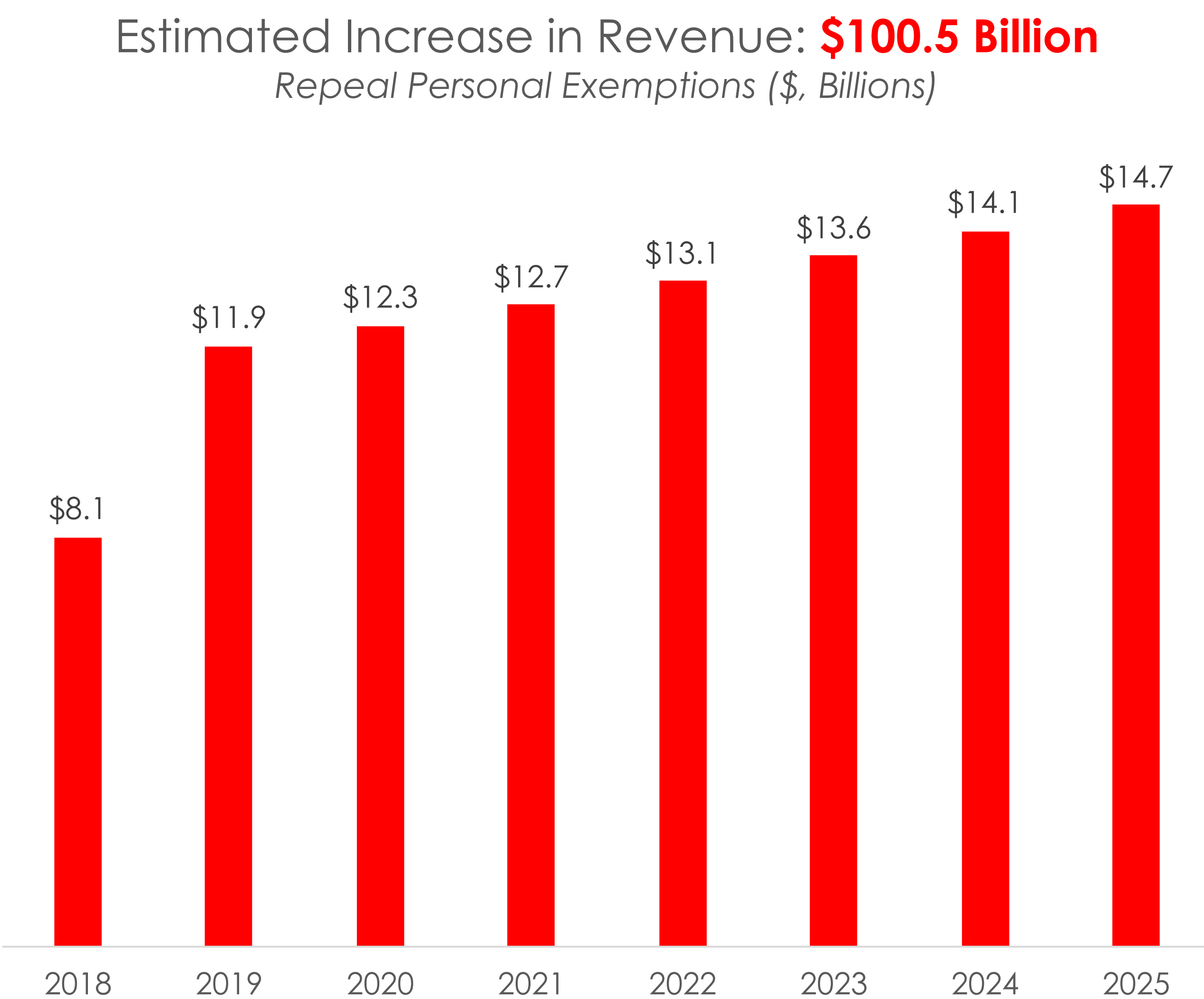
angeloueconomics

Fiscal Impact

Revenue Raising Provision 2: Repeal Personal Exemptions

Personal exemptions allow taxpayers to deduct a fixed amount from their taxable income to account for themselves, a spouse, and any additional dependents that they might have. In 2017, this amount was $4,050 for each exemption. The Tax Cuts and Jobs Act repeals this provision entirely.

In total, repealing personal exemptions for taxpayers and dependents will cost Texans an additional $100.5 billion in taxes.



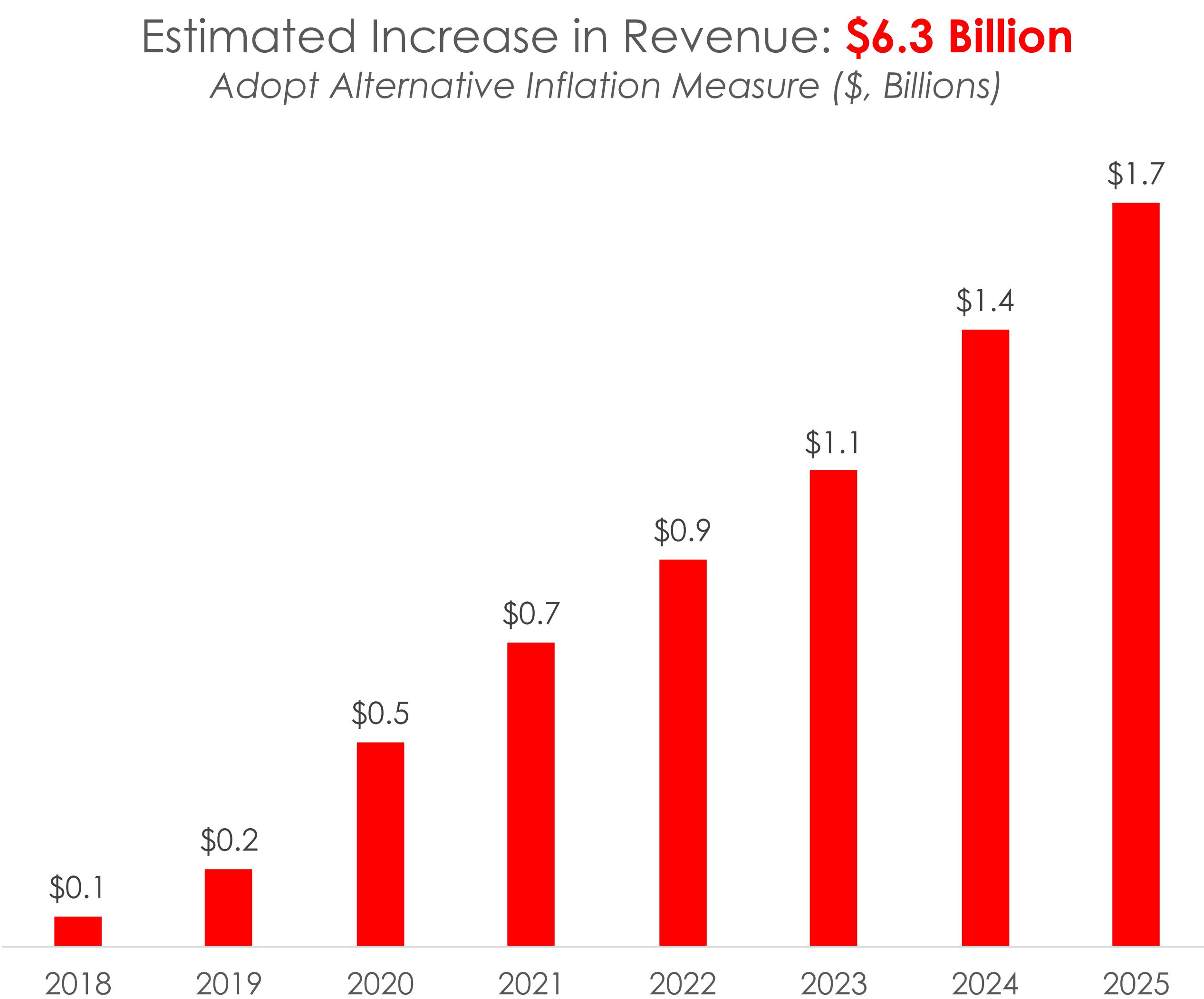
Sources: Joint Committee on Taxation, IRS, AE

Fiscal Impact

Revenue Raising Provision 3: Adopt Alternative Inflation Measure

Under The Tax Cuts and Jobs Act, inflation will be estimated using the chained consumer price index (CPI), rather than the traditional CPI measure released by the Labor Department each month. In effect, this new measure will push more taxpayers into higher tax brackets more quickly.

In total, the adoption of an alternative inflation measure will cost Texans an additional $6.3 billion through 2025.



Sources: Joint Committee on Taxation, IRS, NPR, AE

angeloueconomics

Fiscal Impact

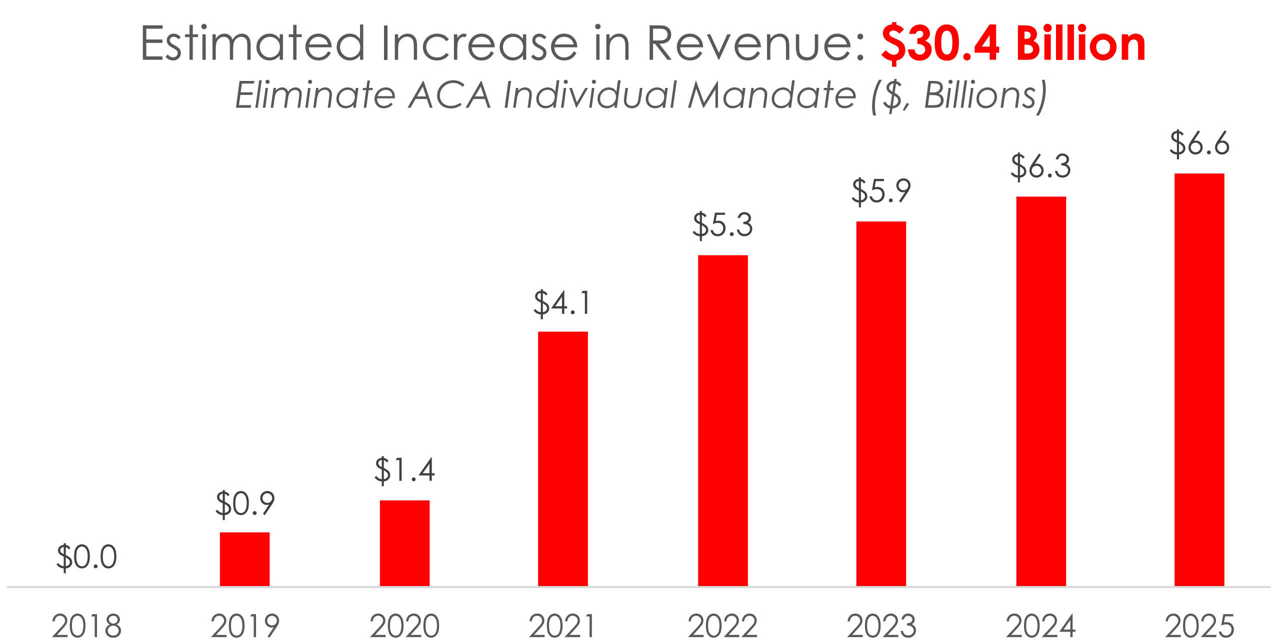
Revenue Raising Provision 4: Eliminate the Affordable Care Act Individual Mandate

Under the Affordable Care Act (ACA), individuals are required to obtain health care coverage during the year or pay a shared responsibility payment known as the individual mandate penalty. Under The Tax Cuts and Jobs Act, the individual mandate penalty will be reduced to zero after 2018, thus effectively eliminating the mandate altogether.

The individual mandate penalty served as a way to incentivize people to sign up for health insurance, since not having it would incur a tax penalty. The Congressional Budget Office predicts that by eliminating it, the number of insured Americans will decline. In effect, this will save the federal government money, since they subsidize health insurance in a number of ways: Medicare expenditures, premium tax credits for federal marketplace coverage, tax-excluded employer-sponsored insurance.

In total, this provision will yield **positive** budgetary effects for the federal government, as it will save more from reductions to healthcare subsidies than it will forego in revenues generated by individual mandate payments.

In total, eliminating the ACA individual mandate will cost Texans an additional $30.4 billion through 2025.



Sources: Joint Committee on Taxation, IRS, AE

[This page is intentionally left blank]

Break Even Home Price

Break Even Home Price

Introduction

Home ownership is an economic activity that has traditionally yielded tax incentives. Rather than selecting the standard deduction, individuals and households can elect to itemize pre-determined deductions if the sum of them are greater than the standard deduction amount.

Under the previous tax law, there were two itemized deductions that directly benefited homeowners:

1. **Mortgage Interest Deduction**
2. **Local Property Tax Deduction**

As previously mentioned, the mortgage interest deduction is now limited to the first $750,000 of mortgage debt for new loans and $1 million for previous loans. Further, the local property tax deduction will be subject to a $10,000 cap for all state and local taxes. **By nearly doubling the standard deduction and altering the mortgage interest and local property tax deductions, The Tax Cuts and Jobs Act will reduce the tax incentives available for homeownership.**

Due to shifting policies, **there exists a specific "break even" home price for each filing status that reflects the minimum price of a home needed to receive tax incentives via itemized deductions.**

Upward Pressure

The Tax Cuts and Jobs Act **raises the break even home price for taxpayers. This will negatively impact many would-be home buyers, since it will require more expensive homes to receive tax relief via itemized deductions.**

The Tax Cuts and Jobs Act places upward pressure on the break even home price in three ways:

1. **Increasing the standard deduction**
2. **Limiting the mortgage interest deduction on new loans up to $750,000**
3. **Capping state and local tax deductions at $10,000**

Increasing the standard deduction will increase the break even point for taxpayers as they weigh the itemized vs. standard deduction. Further, capping the local property tax deduction and limiting the mortgage interest deduction will limit the amount of funds available for homeowners to count towards reaching the standard deduction. **Together, these provisions will price individuals and households out of the tax benefits associated with purchasing homes.**

According to congressional estimates at the national level, only 5-8% of filers will now take advantage of itemized deductions – meaning roughly 95% of taxpayers will have no tax differential between renting and owning a home.

Sources: Joint Committee on Taxation, National Association of Realtors, AE

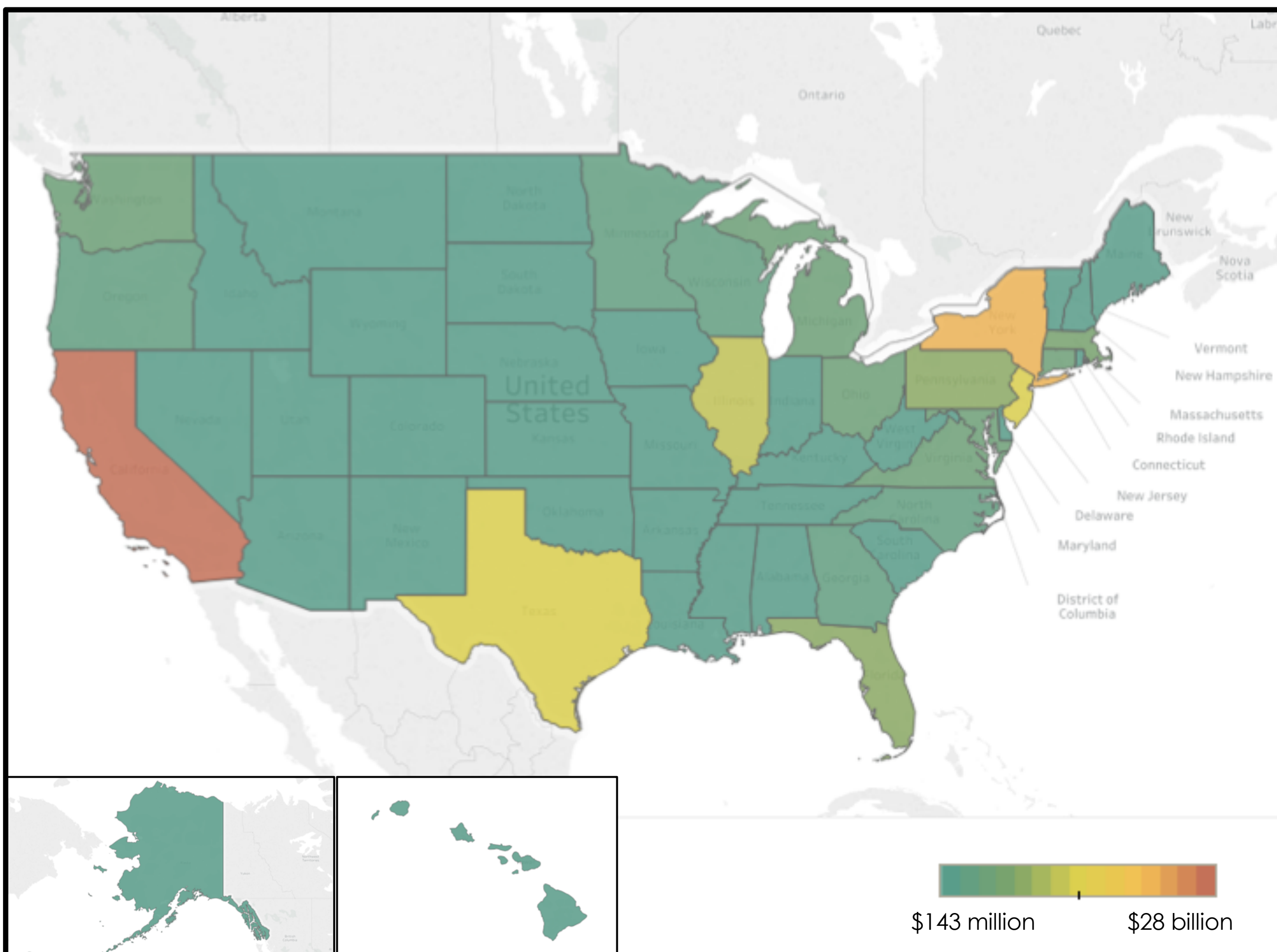
Break Even Home Price

The Local Property Tax Deduction

Statewide totals for the local property tax deduction vary significantly across the nation. In fact, 48% of local property tax deductions nationwide are concentrated in five states: California, New York, New Jersey, Texas, and Illinois. Unsurprisingly, three of these states (New Jersey, Texas, and Illinois) have the highest average property tax rates in the nation. The $10,000 cap on local property tax deductions will bind high-income taxpayers in high property tax states.

Texas homeowners face the 3rd highest property tax rates at an effective rate of 2.06%. In 2015, Texas homeowners deducted $14.8 billion of local property taxes, which was the 4th most of any state.

Amount of State & Local Property Tax Deductions by State
(2015, thousands of US$)



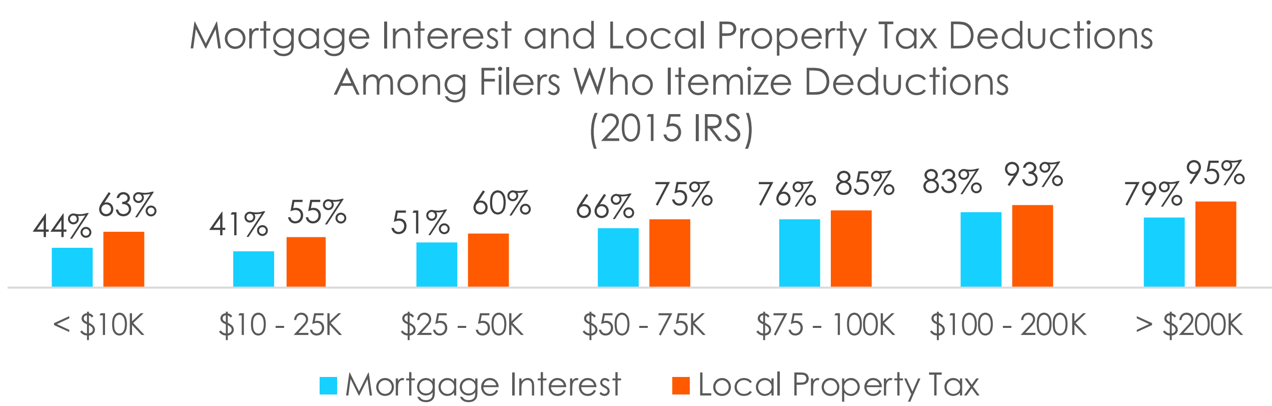
Sources: AE, IRS, National Association of Realtors

Break Even Home Price

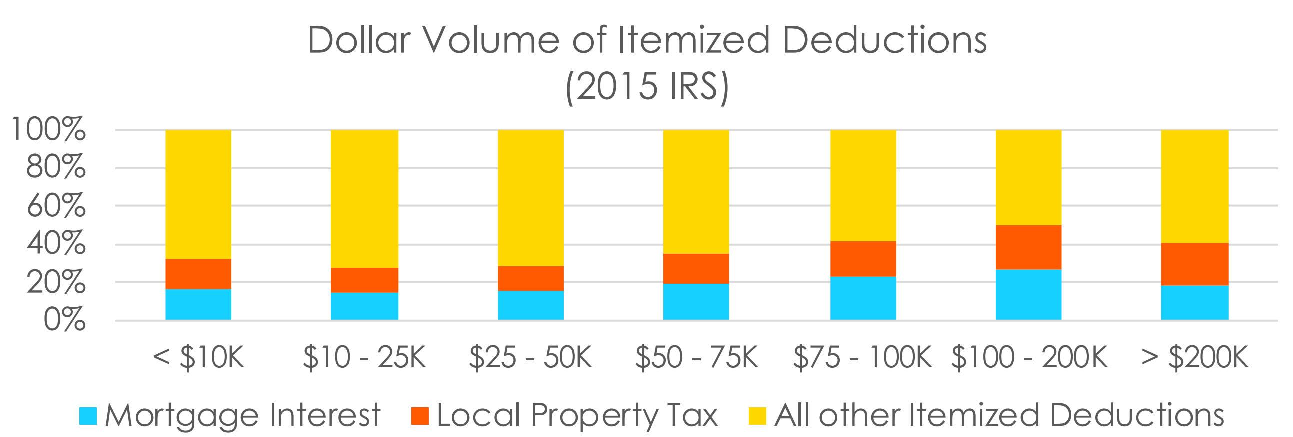
Itemized Deductions in 2015

In Texas, about **24% of filers elected to itemize their deductions in 2015**. This **exempted over $74.7 billion** from being **subject to income tax**. Central to itemized deductions are the mortgage interest and local property tax deductions – both are key contributors to the number of itemized deductions filed and the dollar volume of total deductions.

Across all itemized deductions, **nearly 70% utilized the mortgage interest deduction, while 81% took the local property tax deduction.** Across all income brackets, more filers elected to take the local property tax deduction over the mortgage interest deduction.



By dollar volume, **30% of itemized deductions were for property taxes, while 21% were for mortgage interest deductions**. The property tax deduction was utilized most by households with adjusted gross incomes over $75,000 – accounting for 22% of the total dollar volume of deductions. **Enacting a $10,000 cap on local property tax deductions will bind high-income taxpayers in Texas.**



Sources: AE, IRS

angeloueconomics

Break Even Home Price

Texas Homeowners

For Texas homeowners, the break even home price is determined by using 2017 and 2018 IRS standard deduction amounts, and the following statewide averages:

Standard Deduction Amounts		
	2017 IRS	***Tax Cuts and Jobs Act***
Single	$6,350	$12,000
Married	$12,700	$24,000
Head of Household	$9,350	$18,000

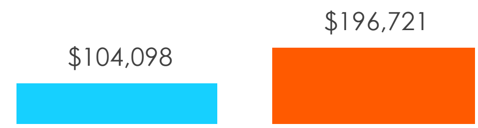
Statewide Averages	
Parameter	***Statewide Average***
Property Tax Rate	2.06%
Interest Rate *(30 Year Fixed)*	4.04%

The break even home price is the standard deduction divided by the sum of the property tax rate and interest rate. Additionally, there also exists a "Max" home price of $485,437, regardless of filing status. This value is where the property tax deduction reaches its $10,000 cap. In essence, there are no additional tax incentives provided to homes above this threshold.

Across each filing type, the break even home price will increase significantly for Texas home owners.

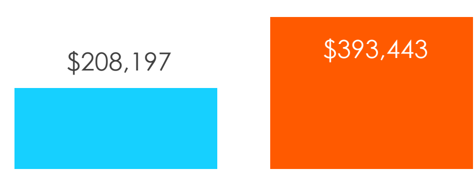
Break Even Home Price by Filing Status

Single



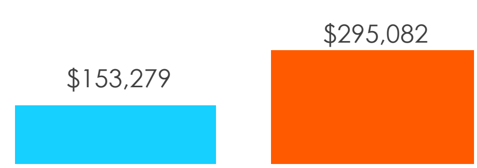
Increase: $92,623

Married



Increase: $185,246

Head of Household



Increase: $141,803

2017 | Tax Cuts and Jobs Act

Sources: AE, Federal Reserve Economic Data, Census Bureau

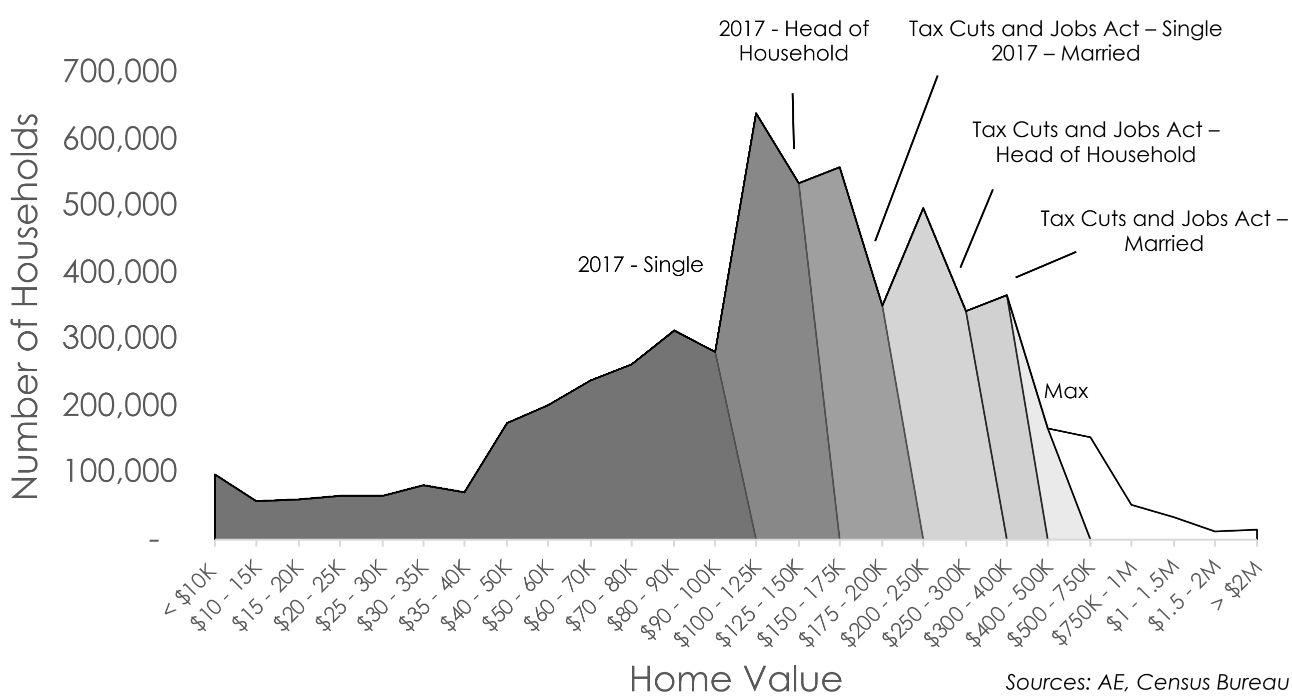
Break Even Home Price

Qualifying Homes

Based on the current distribution of home values in Texas, we are able to understand approximately how many homeowners will be impacted by the rising break even home price. Take married filers as an example. In 2017, **the break even home price** for the average married filer **in Texas was $208,197**. Roughly **29% of homes in Texas** have **values greater than or equal** to this **break even level**. Under The Tax Cuts and Jobs Act, the **break even home price** for married filers **jumps to $393,443** – a level in which **roughly 8% of homes qualify. Approximately 95% of homes in Texas fall below the max home price of $485,437, which means that the top 5% of Texas homes will not receive additional tax incentives for their value above the max threshold.**

Households that Qualify for Home Ownership Tax Incentive		
	2017 IRS	***The Tax Cuts and Jobs Act***
Single	65%	29%
Married	29%	8%
Head of Household	45%	14%

Texas Households Whose Home Value Meets Each Break Even Home Price



Sources: AE, Census Bureau

angeloueconomics

Break Even Home Price

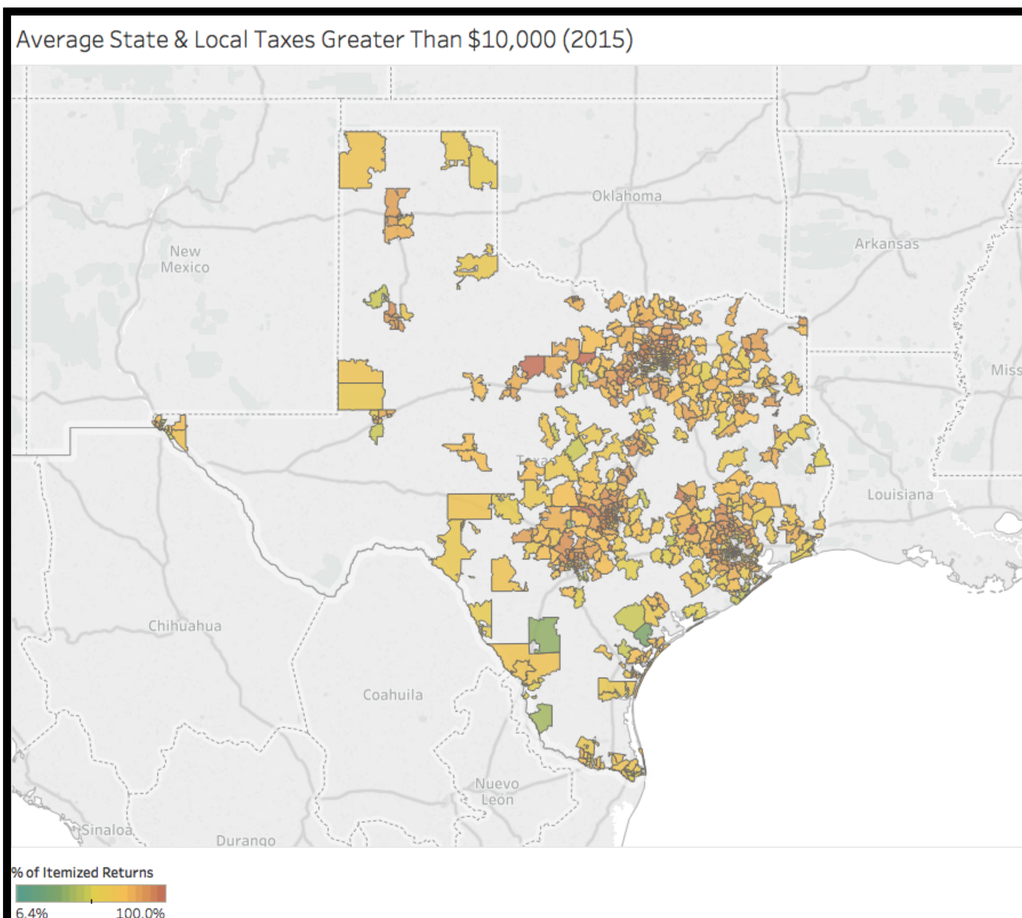
$10,000 Cap on State and Local Taxes (SALT)

Moving forward, taxpayers who itemize deductions will be able to deduct the following taxes paid at the state and local level:

- Individual Income Taxes
- Sales Taxes
- Property Taxes

The new law caps the sum of these taxes at $10,000 – meaning any state and local taxes paid above this threshold will be nondeductible. As Texas is a no income tax state, it will be afforded some breathing room for property tax deductions. However, there still remains a large amount of itemizers who will be limited by the $10,000 cap.

According to 2015 IRS data, 833 ZIP Codes in Texas (32%) had an average SALT deduction above the $10,000 cap. These ZIP Codes are concentrated in Texas' major metro areas, but also scattered across the state.



Sources: AE, IRS, National Association of Realtors

[This page is intentionally left blank]

Local Property Taxes Across Texas

Local Property Taxes Across Texas

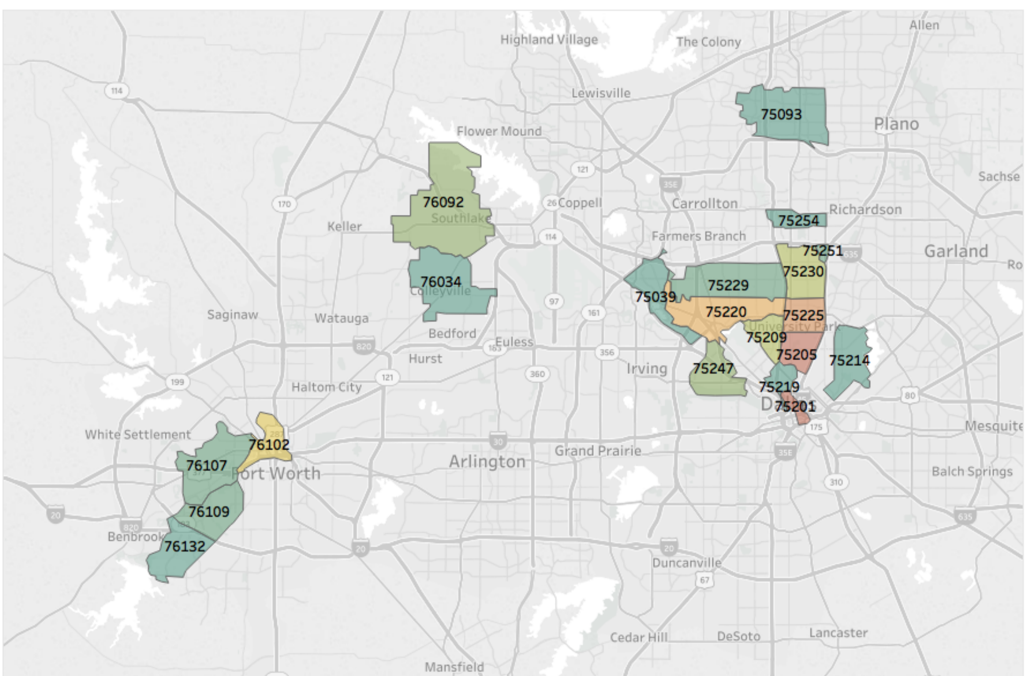
Property Tax Deduction

The subsequent maps examine the ZIP Codes throughout Texas whose average 2015 local property tax deduction exceeded $10,000. This is similar to the map on page 30; however, now we are only considering the deduction for local property taxes, not the sum of state and local income, sales, and property taxes.

Across Texas, there exists 61 ZIP codes whose average 2015 local property tax deduction exceeded $10,000. Above this threshold, property tax deductions cease to provide *additional* tax incentives for home owners under The Tax Cuts and Jobs Act. These ZIP codes are spread across the metro areas of Dallas-Fort Worth, Houston-The Woodlands-Sugar Land, Austin, San Antonio, Corpus Christi, and El Paso.

To determine each ZIP code's average local property tax deduction, the total amount of property tax deductions were divided by the total amount of filers for the deduction. These estimates were taken across each income bracket using 2015 IRS data.

Dallas-Fort Worth: Average Local Property Taxes above $10,000 (2015)



Color shows Average Local Property Taxes above $10,000 filtered by ZIP code.

Average Local Property Tax

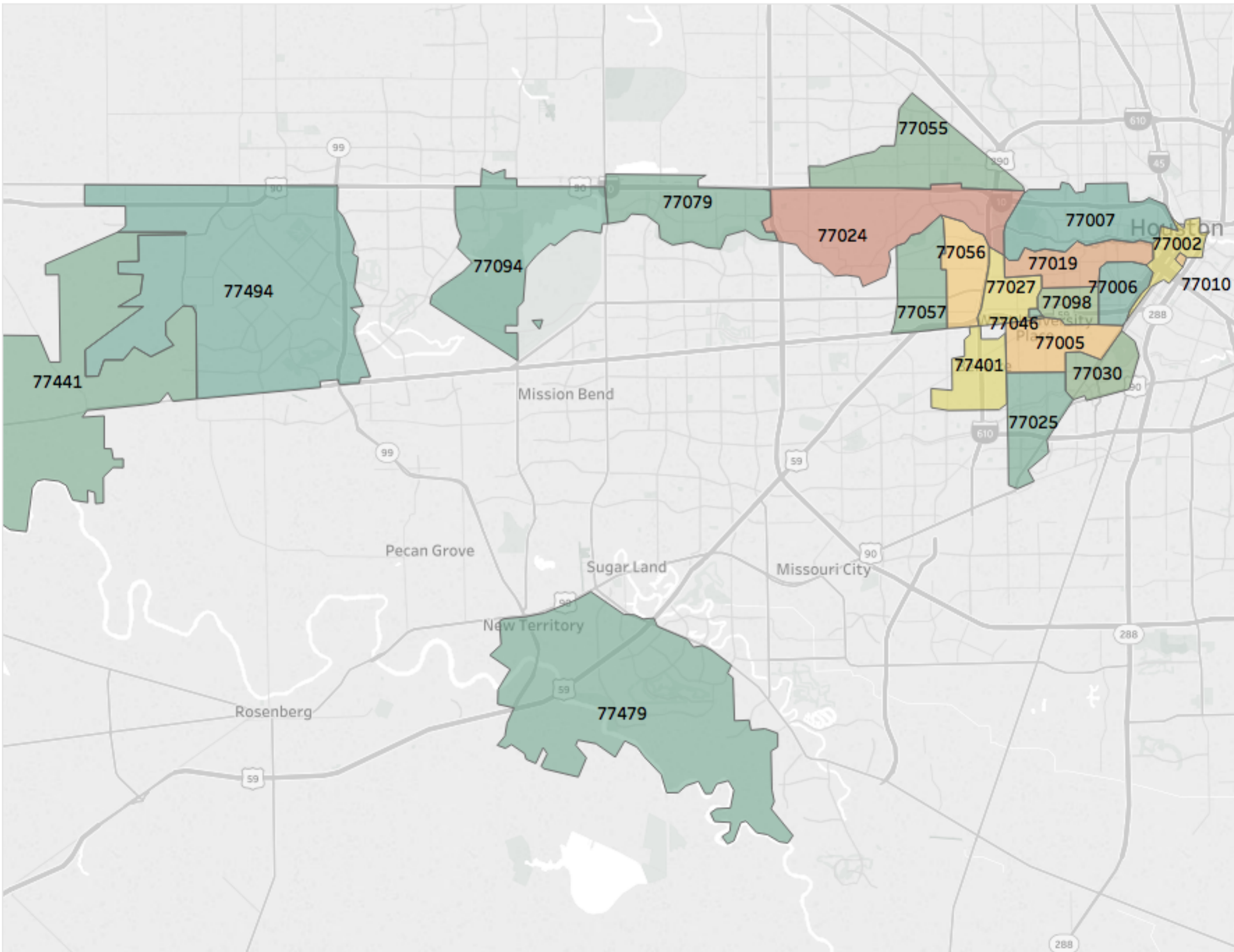
10,041 23,218

Sources: AE, IRS

angeloueconomics

Local Property Taxes Across Texas

Houston-The Woodlands-Sugar Land: Average Local Property Taxes above $10,000 (2015)



Color shows Average Local Property Taxes above $10,000 filtered by ZIP code.

Average Local Property Tax

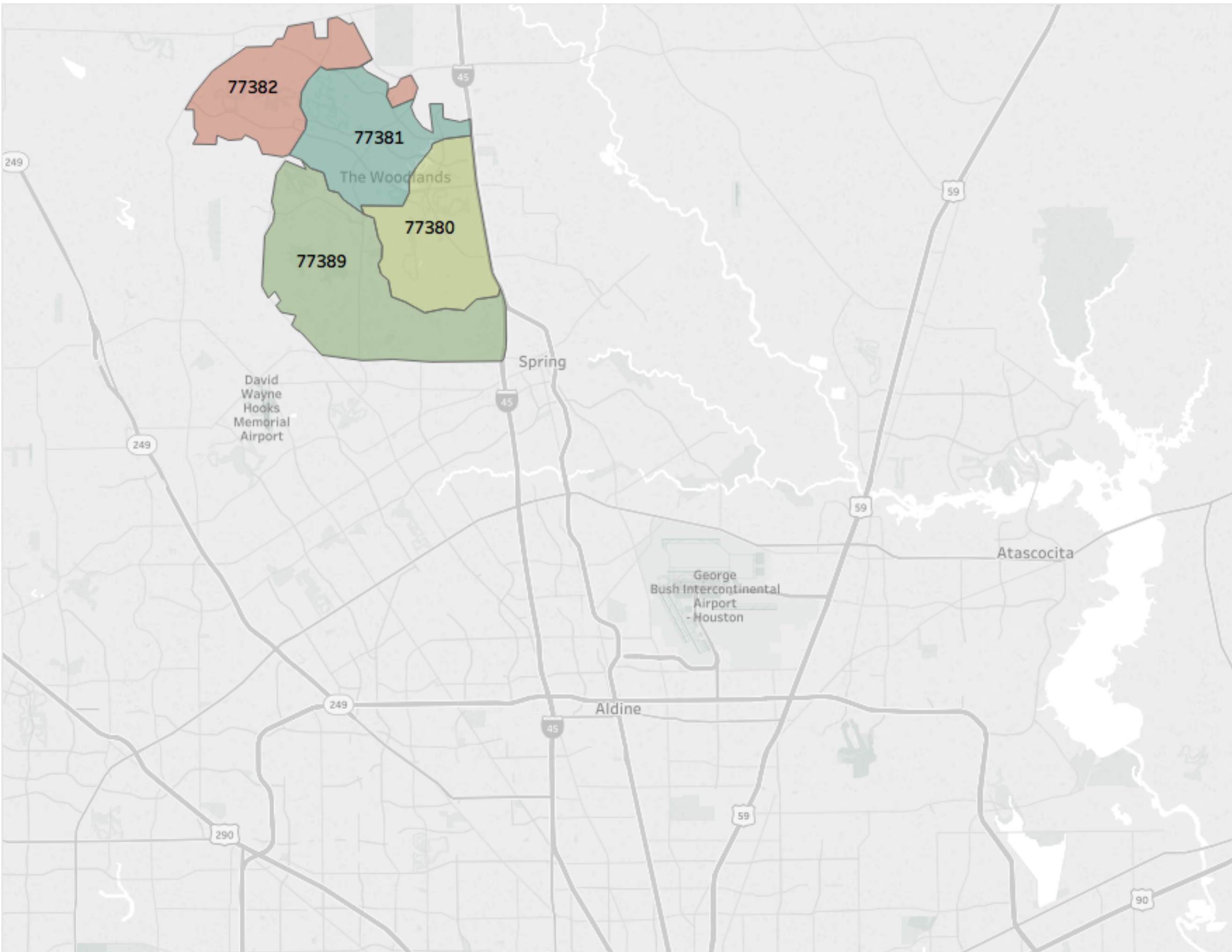
10,051 24,611

Sources: AE, IRS

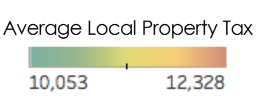
angeloueconomics

Local Property Taxes Across Texas

Houston-The Woodlands-Sugar Land: Average Local Property Taxes above $10,000 (2015)



Color shows Average Local Property Taxes above $10,000 filtered by ZIP code.

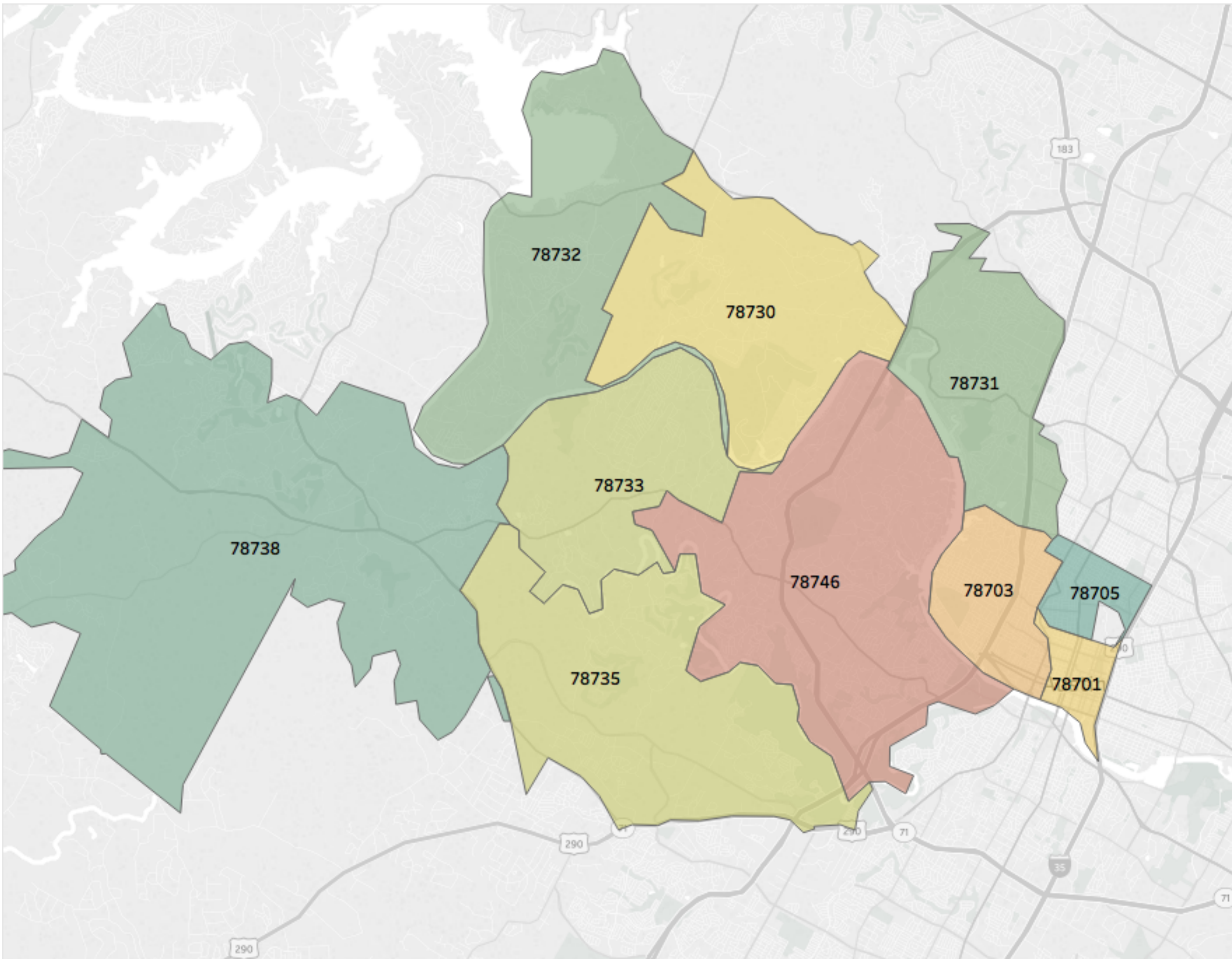


Sources: AE, IRS

angeloueconomics

Local Property Taxes Across Texas

Austin: Average Local Property Taxes above $10,000 (2015)



Color shows Average Local Property Taxes above $10,000 filtered by ZIP code.

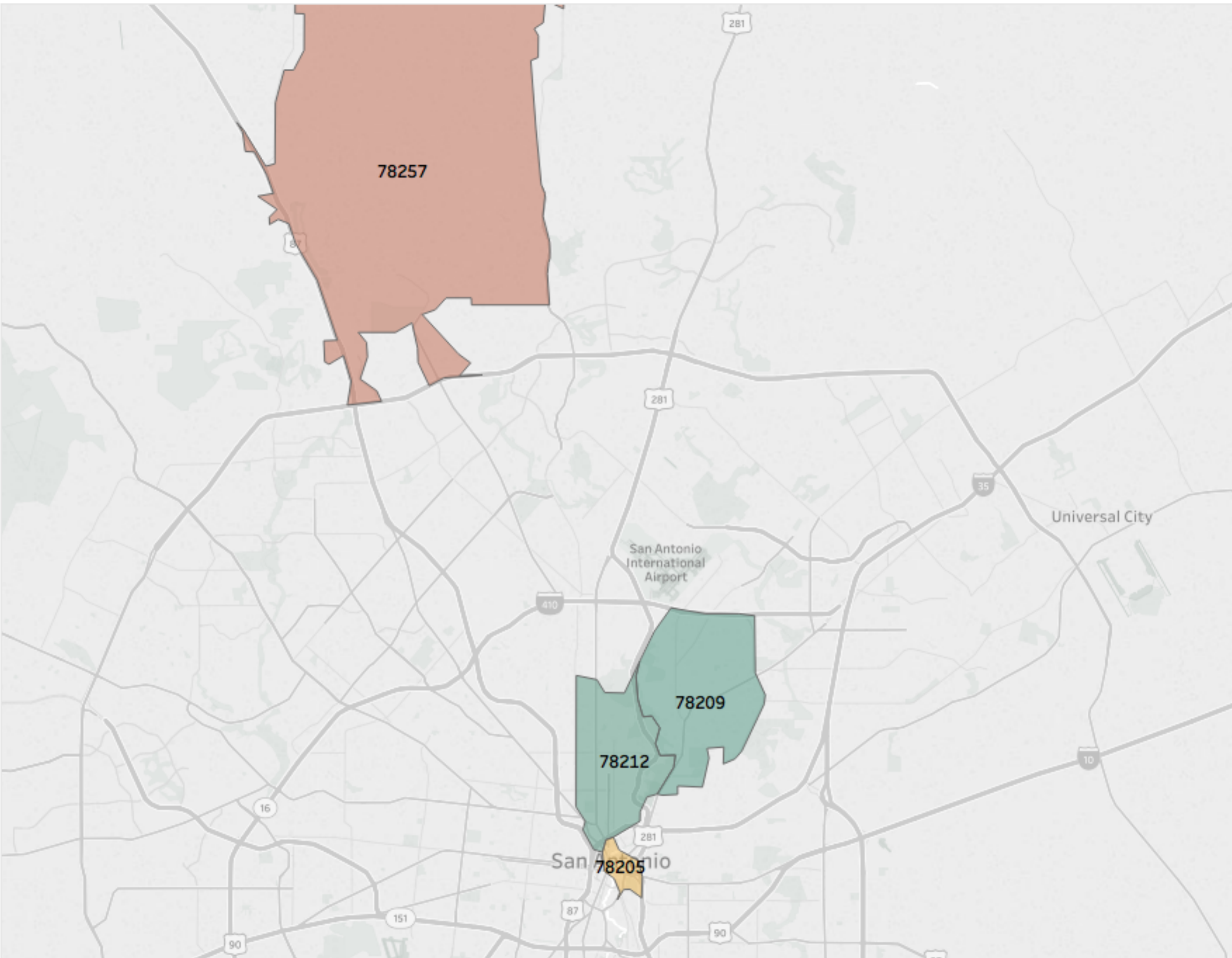
Average Local Property Tax

10,947 18,080

Sources: AE, IRS

Local Property Taxes Across Texas

San Antonio: Average Local Property Taxes above $10,000 (2015)



Color shows Average Local Property Taxes above $10,000 filtered by ZIP code.

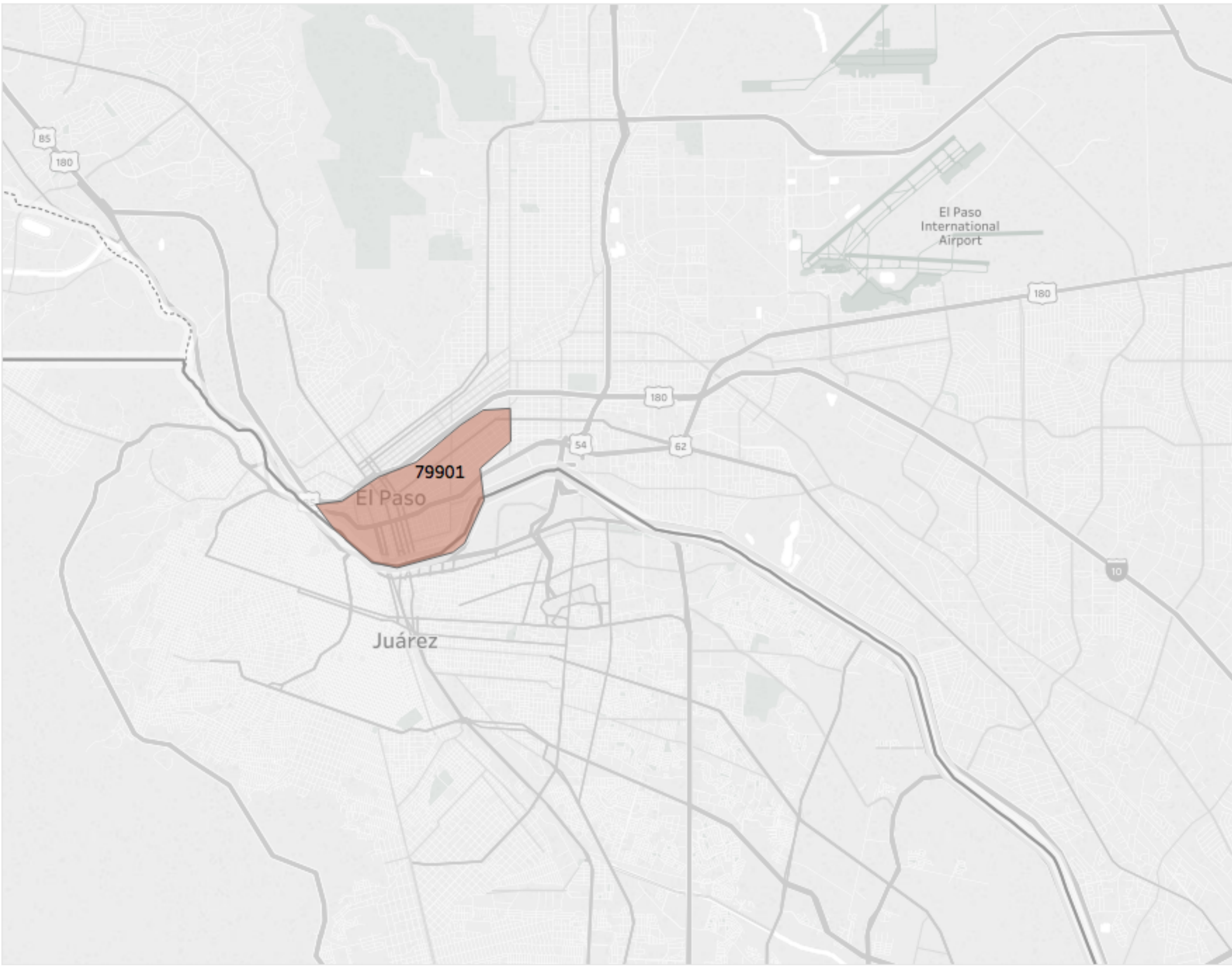
Average Local Property Tax

11,688 17,648

Sources: AE, IRS

Local Property Taxes Across Texas

El Paso: Average Local Property Taxes above $10,000 (2015)



Color shows Average Local Property Taxes above $10,000 filtered by ZIP code.

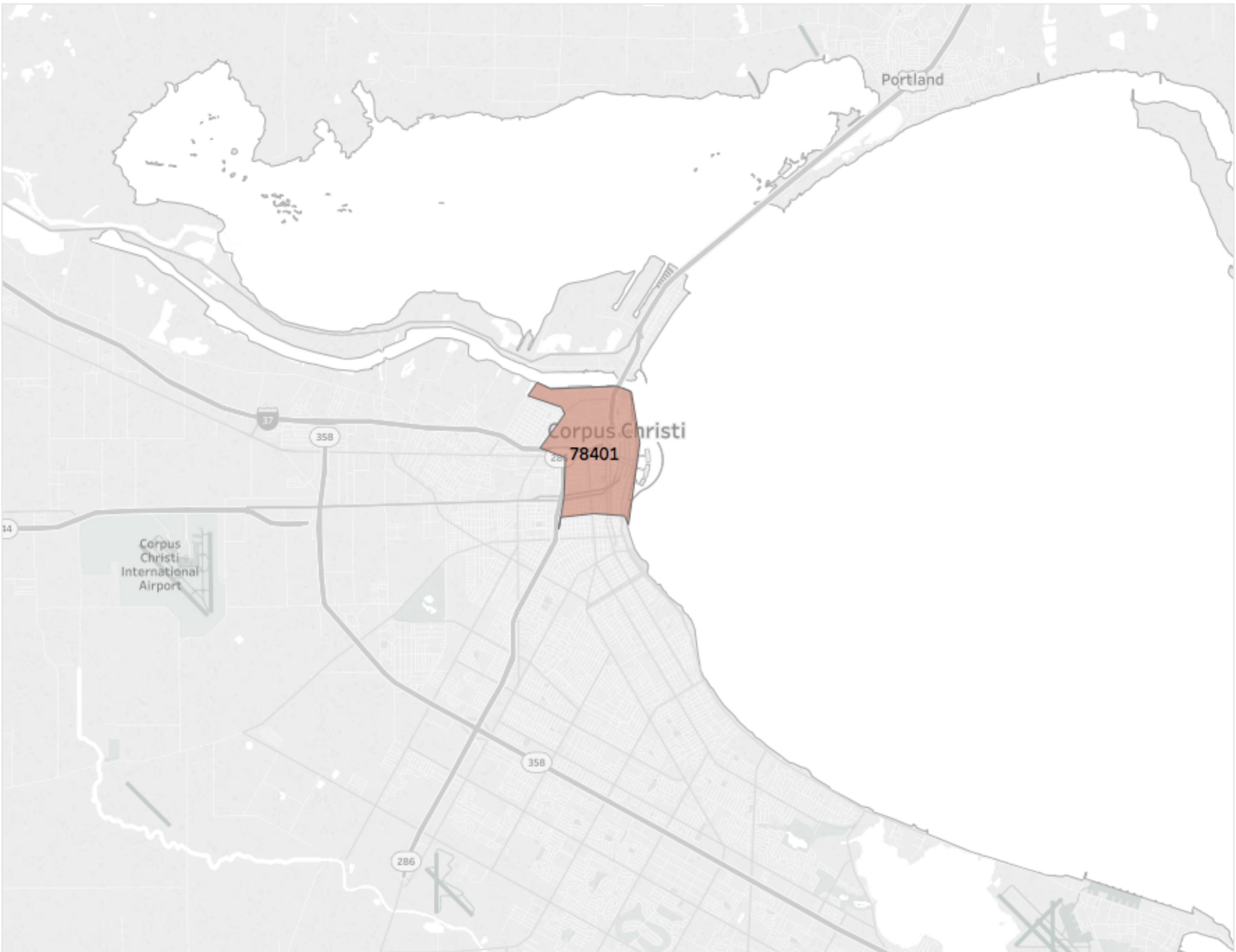
Average Local Property Tax

13,786

Sources: AE, IRS

Local Property Taxes Across Texas

Corpus Christi: Average Local Property Taxes above $10,000 (2015)



Color shows Average Local Property Taxes above $10,000 filtered by ZIP code.

Average Local Property Tax

12,469

Sources: AE, IRS

angeloueconomics

Appendix

The Tax Cuts and Jobs Act: Talking Points for Texas REALTOR® Leaders

On Dec. 22, 2017, President Trump signed the "Tax Cuts and Jobs Act" as passed by Congress. All individual provisions of the measure are generally effective after Dec.31, 2017 for the 2018 tax filing year and expire on Dec. 31, 2025 unless otherwise noted. The provisions do not affect tax filings for 2017 unless noted.

Below are several real estate-related provisions addressed in the new law. Read NAR's extensive analysis of the law at TexasRealEstate.com/TaxReform.

What the law changes

- **Mortgage interest deduction**
  - 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 not subject to the new cap. Neither limit is indexed for inflation.
- **Home equity loan interest deduction**
  - Repeals the deduction for interest paid on home equity debt through 12/31/25.
  - Interest remains deductible on home equity loans (or second mortgages) if the proceeds are used to substantially improve the residence.
- **State and local property tax deduction**
  - Caps the itemized deduction for state and local property taxes (and income or sales taxes) at $10,000. This limit isn't indexed for inflation.
  - This deduction was previously unlimited.
- **Moving expenses**
  - Repeals the moving expense deduction, except for members of the Armed Forces.
- **Standard deductions**
  - Doubles the standard deductions for individual filers (to $12,000) and joint filers (to $24,000). This deduction is indexed for inflation.
  - This greatly reduces the value of the itemized MID and property tax deductions as tax incentives for homeownership, as more filers are expected to take the standard deduction rather than itemizing.

What will not change

- **Like-kind exchanges for real property**
  - Retains the Section 1031 Like Kind Exchange rule for real property, but repeals the use of Section 1031 for personal property.
- **Capital gains**
  - Retains current law related to capital gains on the sale of a principal residence
- **Deductions for medical expenses and student loan interest**
  - Retains current law for these itemized deductions

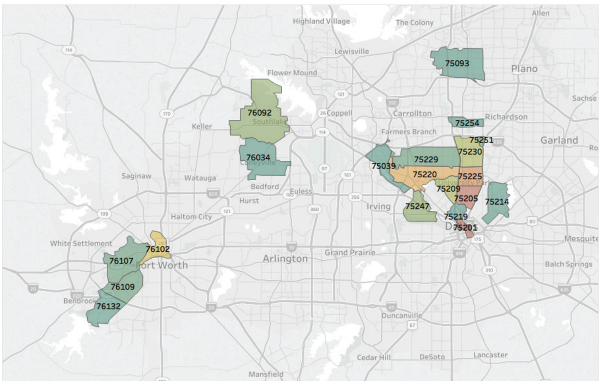
Texas Association of Realtors®

Local Property Taxes Across Texas

The new law puts a $10,000 limit on property tax deductions. The Texas Association of REALTORS® used IRS data to identify 61 ZIP codes across Texas whose average 2015 local property tax deduction exceeded $10,000.

As property values increase statewide and local tax rates aren't lowered, more Texans will see their property tax bills increase and even exceed the $10,000 deduction cap, limiting their ability to take advantage of this incentive for homeowners.

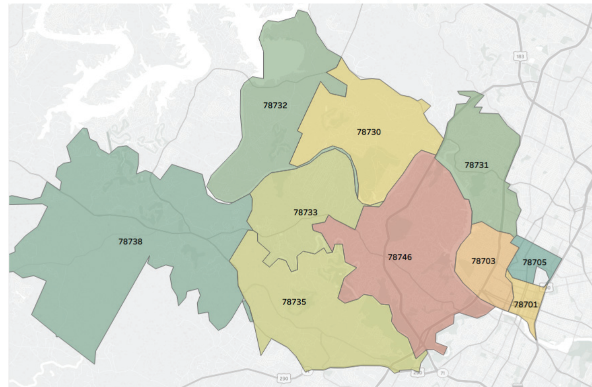
Dallas-Fort Worth: Average Local Property Taxes above $10,000 (2015)



Color shows Average Local Property Taxes above $10,000 filtered by ZIP code.

Average Local Property Tax
10,041 23,218

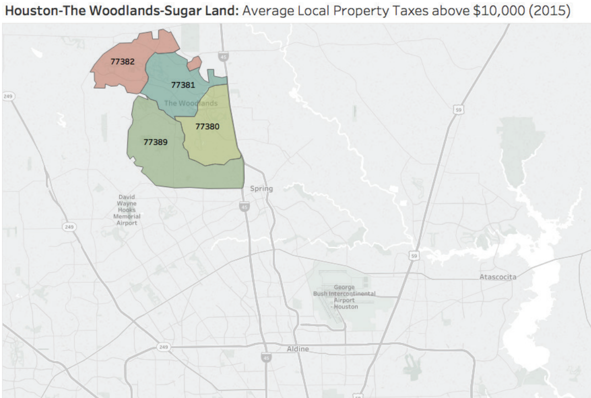
Austin: Average Local Property Taxes above $10,000 (2015)



Color shows Average Local Property Taxes above $10,000 filtered by ZIP code.

Average Local Property Tax
10,947 18,080

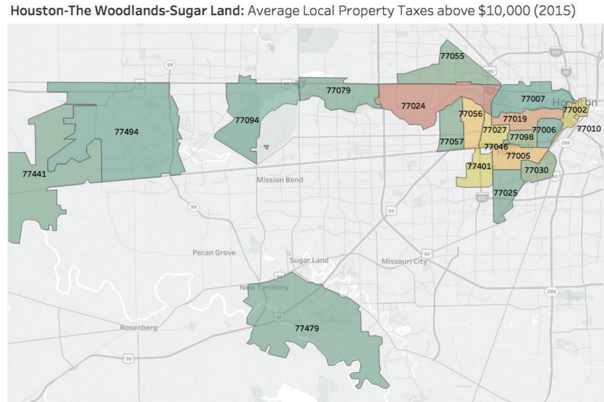
Houston-The Woodlands-Sugar Land: Average Local Property Taxes above $10,000 (2015)



Color shows Average Local Property Taxes above $10,000 filtered by ZIP code.

Average Local Property Tax
10,053 12,328

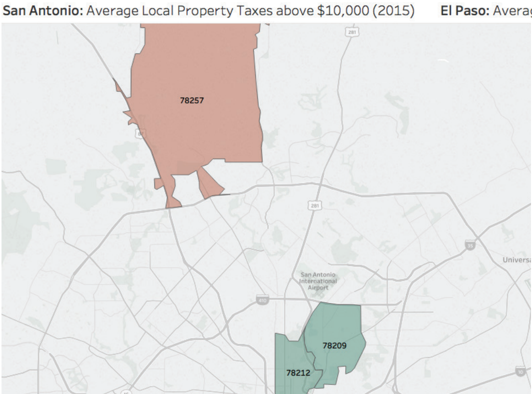
Houston-The Woodlands-Sugar Land: Average Local Property Taxes above $10,000 (2015)



Color shows Average Local Property Taxes above $10,000 filtered by ZIP code.

Average Local Property Tax
10,051 24,611

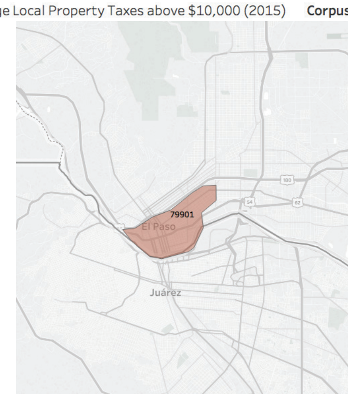
San Antonio: Average Local Property Taxes above $10,000 (2015)



Color shows Average Local Property Taxes above $10,000 filtered by ZIP code.

Average Local Property Tax
11,688 17,648

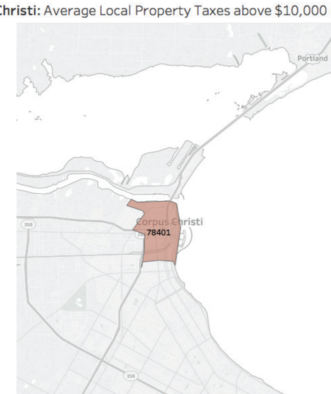
El Paso: Average Local Property Taxes above $10,000 (2015)



Color shows Average Local Property Taxes above $10,000 filtered by ZIP code.

Average Local Property Tax
13,786

Corpus Christi: Average Local Property Taxes above $10,000 (2015)



Color shows Average Local Property Taxes above $10,000 filtered by ZIP code.

Average Local Property Tax
12,469

Appendix

Summary of Individual Provisions

Reduce Income Tax Rates

Marginal tax rates will be reduced across each income bracket to 10%, 12%, 22%, 24%, 32%, 35%, and 37%.

Increase the Standard Deduction

The standard deduction will nearly double across each filing status ($12,000 for single, $24,000 for married, and $18,000 for head of household filers).

Increase Alternative Minimum Tax Exemption Amounts and Phase-out Threshold

The exemption amount and phase-out threshold for the Alternative Minimum Tax will increase, and only impinge upon 5% of the taxpayers who triggered the tax in 2017.

Reform the Child Tax Credit

The child tax credit will increase from $1,000 to $2,000 under The Tax Cuts and Jobs Act and will be refundable up to $1,400.

Double the Estate, Gift, and Generation-Skipping Tax Exemption Amount

The exemption amount for these taxes will effectively double ($11.2 million per individual and $22.4 million per married couple). Any wealth transfers under this threshold will not be subject to these taxes.

Reform Deductions Exclusions

Many deductions and exemptions will be removed or reformed under The Tax Cuts and Jobs Act. Namely, the state and local tax deduction will be capped at $10,000 and the deduction for interest on mortgage debt will be capped at $750,000.

Repeal Personal Exemptions

Personal exemptions for taxpayers, spouses, and dependents have been removed entirely.

Adopt Alternative Inflation Measure

Inflation will be measured using the chained consumer price index. This will push more taxpayers into higher tax brackets more quickly than before.

Eliminate the Affordable Care Act Individual Mandate

The Tax Cuts and Jobs Act reduces the shared responsibility payment of the ACA to zero, which effectively eliminates the individual mandate penalty.

Sources: Joint Committee on Taxation, AE

Appendix

2017 Tax Provisions

Standard Deduction	
Filing Status	*Amount*
Single	$6,350
Married	$12,700
Head of Household	$9,350

Personal and Dependent Exemptions
$4,050

Income Tax Brackets

Single		
Lower Bound	*Upper Bound*	*Tax Rate*
$0	$9,325	10%
$9,325	$37,950	15%
$37,950	$91,900	25%
$91,900	$191,650	28%
$191,650	$416,700	33%
$416,700	$418,400	35%
$418,400+		39.6%

Married		
Lower Bound	*Upper Bound*	*Tax Rate*
$0	$18,650	10%
$18,650	$75,900	15%
$75,900	$153,100	25%
$153,100	$233,350	28%
$233,350	$416,700	33%
$416,700	$470,700	35%
$470,700+		39.6%

Head of Household		
Lower Bound	*Upper Bound*	*Tax Rate*
$0	$13,350	10%
$13,350	$50,800	15%
$50,800	$131,200	25%
$131,200	$212,500	28%
$212,500	$416,700	33%
$416,700	$444,500	35%
$444,500+		39.6%

Sources: IRS

Appendix

The Tax Cuts and Jobs Act

Standard Deduction	
Filing Status	***Amount***
Single	$12,000
Married	$24,000
Head of Household	$18,000

Income Tax Brackets

Tax Brackets under The Tax Cuts and Jobs Act			
Tax Rate	***Single***	***Married***	***Head of Household***
10%	$0 – $9,525	$0 – $19,050	$0 – $13,600
12%	$9,525 – $38,700	$19,050 – $77,400	$13,600 – $51,800
22%	$38,700 – $82,500	$77,400 – $165,000	$51,800 – $82,500
24%	$82,500 – $157,500	$165,000 – $315,000	$82,500 – $157,500
32%	$157,500 – $200,000	$315,000 – $400,000	$157,500 – $200,000
35%	$200,000 – $500,000	$400,000 – $600,000	$200,000 – $500,000
37%	$500,000 and over	$600,000 and over	$500,000 and over

Sources: National Association of Realtors

Appendix

About the Joint Committee on Taxation (JCT)

JCT is a nonpartisan committee of the United States Congress, whose purpose is to assist members of both the majority and minority parties in Congress. The committee is comprised of Ph.D. economists, attorneys, and accountants who specialize in matters related to tax policy.

The estimates included in this report were based on two documents provided by JCT:

1. **JCX-67-17:** "ESTIMATED BUDGET EFFECTS OF THE CONFERENCE AGREEMENT FOR H.R. 1, THE "TAX CUTS AND JOBS ACT"

2. **JCX-68-17:** "DISTRIBUTIONAL EFFECTS OF THE CONFERENCE AGREEMENT FOR H.R. 1, THE 'TAX CUTS AND JOBS ACT'"

Please visit www.JCT.gov to view these documents.

Sources: Joint Committee on Taxation

[This page is intentionally left blank]

About AngelouEconomics

AngelouEconomics is an industry leader in corporate site location, economic feasibility and impact studies, and comprehensive economic development strategies.

Our goal is to leverage the unique strengths of each region to provide new, strategic direction for economic development.

With our expertise in economic development, research, and incentives negotiation, our clients are able to streamline their operations, diversify their economies, expand job opportunities and investment, foster entrepreneurial growth, and better prepare their workforce.

To learn more, visit **www.angeloueconomics.com**

Project Team

Angelos Angelou
Principal Executive Officer
angelos@angeloueconomics.com

William Mellor
Vice President & General Manager
wmellor@angelouecnomics.com

Anthony Michael
Project Manager
amichael@angeloueconomics.com

Questions? Call us:

(512) 225 – 9325

angeloueconomics

Texas Association of Realtors®
1115 San Jacinto Blvd., Ste. 200
Austin, Texas 78701-1906
800.873.9155 / 512.480.8200