

GAD Briefing

May 16, 2017

2017 REALTORS®

Legislative Meetings &
Trade Expo

115th Congress First Session

- **Passing Fiscal Year 2018 Budget**
- **Tax Reform**
 - **Use of Budget Reconciliation**
- **National Flood Insurance**
- **GSE Reform**

Two Points on Tax Reform

- **GOP control does not ensure tax reform will be quick and easy or even a foregone conclusion.**
- **Use of “Reconciliation” procedure gets around need for 60 votes, but it is generally slow and difficult.**

Tax Reform Environment 1984-1986

Election
1984

- President Reagan Historic Landslide Victory
- 525-13 Electoral College Margin

January
1985

- Reagan Renews Call for Bi-Partisan Tax Reform
- Presidential Approval Rating 60%

May
1986

- Presidential Approval Rating peaks at 68%
- Tax Reform Still in Congress

January
1984

Tax Reform
State of the
Union



May 1985

Oval Office
Address



December
1985

House Bill
Introduced



October
1986

Tax Reform
Act of 1986
Signed into
Law



More Than 30 Years of Waiting

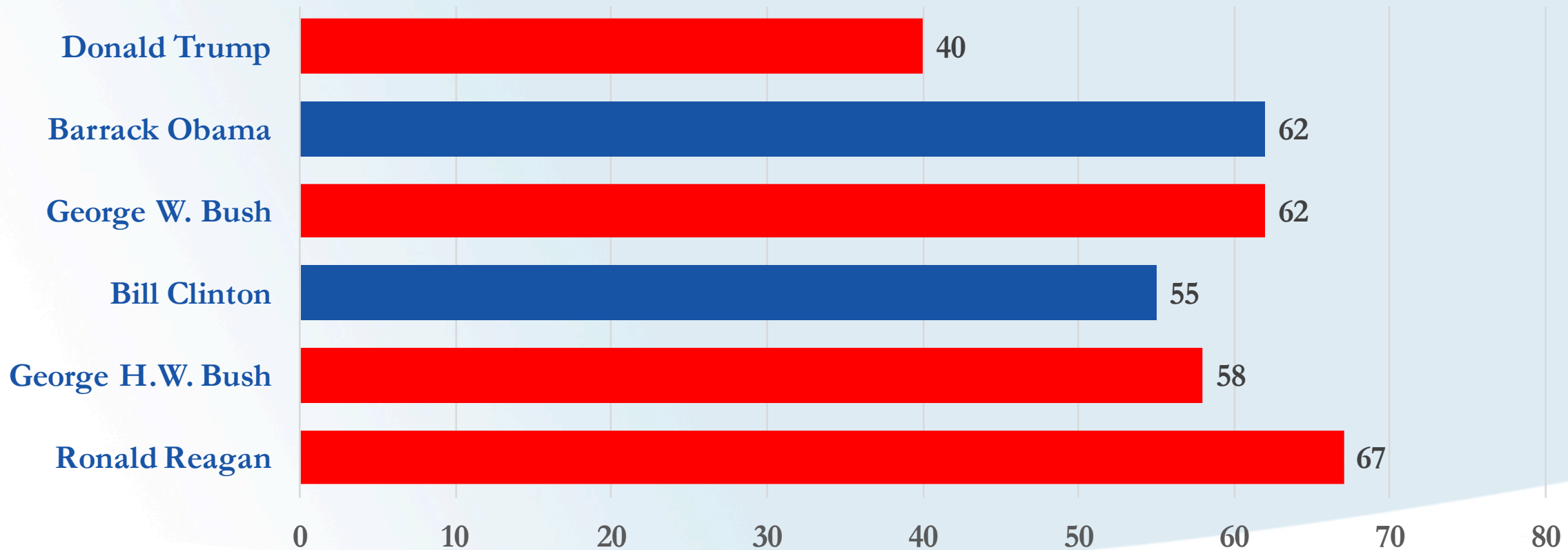
“A great national debate now begins. It should not be a partisan debate for the authors of tax reform come from both parties, and all of us want greater fairness, incentives, and simplicity in taxation”

President Ronald Reagan

Oval Office Address to the Nation May 28, 1985

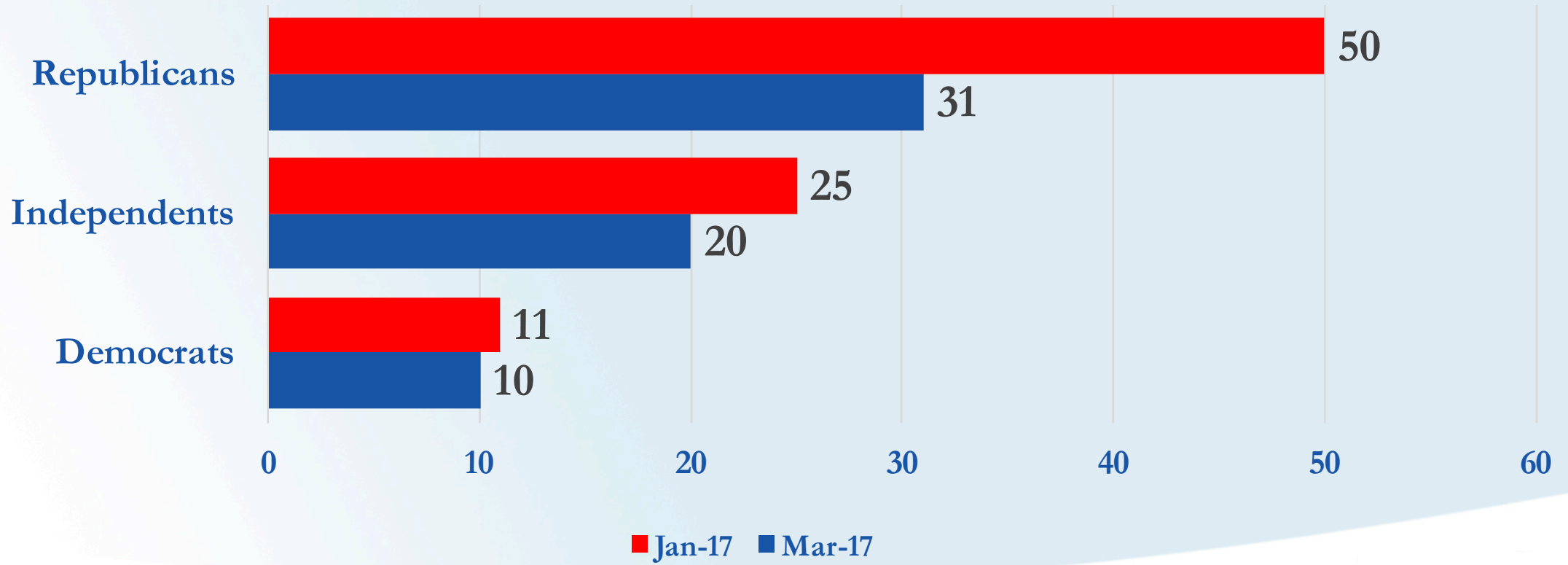
Tax Reform Environment 2017

Presidential Approval Ratings



Tax Reform Environment 2017

Congressional Approval Rating by Party Identification





Why the Tax Reform Blueprint's Increase in the Standard Deduction is Not What It Seems

May 16, 2017

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House Republican Tax Reform Blueprint



A BETTER WAY

to do

TAX REFORM



 better.gop

Blueprint Could Demolish Tax Benefits of Homeownership



Trump Tax Reform Outline



2017 Tax Reform for Economic Growth and American Jobs

The Biggest Individual And Business Tax Cut In American History

Goals For Tax Reform

- Grow the economy and create millions of jobs
- Simplify our burdensome tax code
- Provide tax relief to American families—especially middle-income families
- Lower the business tax rate from one of the highest in the world to one of the lowest

Individual Reform

- Tax relief for American families, especially middle-income families:
 - Reducing the 7 tax brackets to 3 tax brackets of 10%, 25% and 35%
 - Doubling the standard deduction
 - Providing tax relief for families with child and dependent care expenses
- Simplification:
 - Eliminate targeted tax breaks that mainly benefit the wealthiest taxpayers
 - Protect the home ownership and charitable gift tax deductions
 - Repeal the Alternative Minimum Tax
 - Repeal the death tax
- Repeal the 3.8% Obamacare tax that hits small businesses and investment income

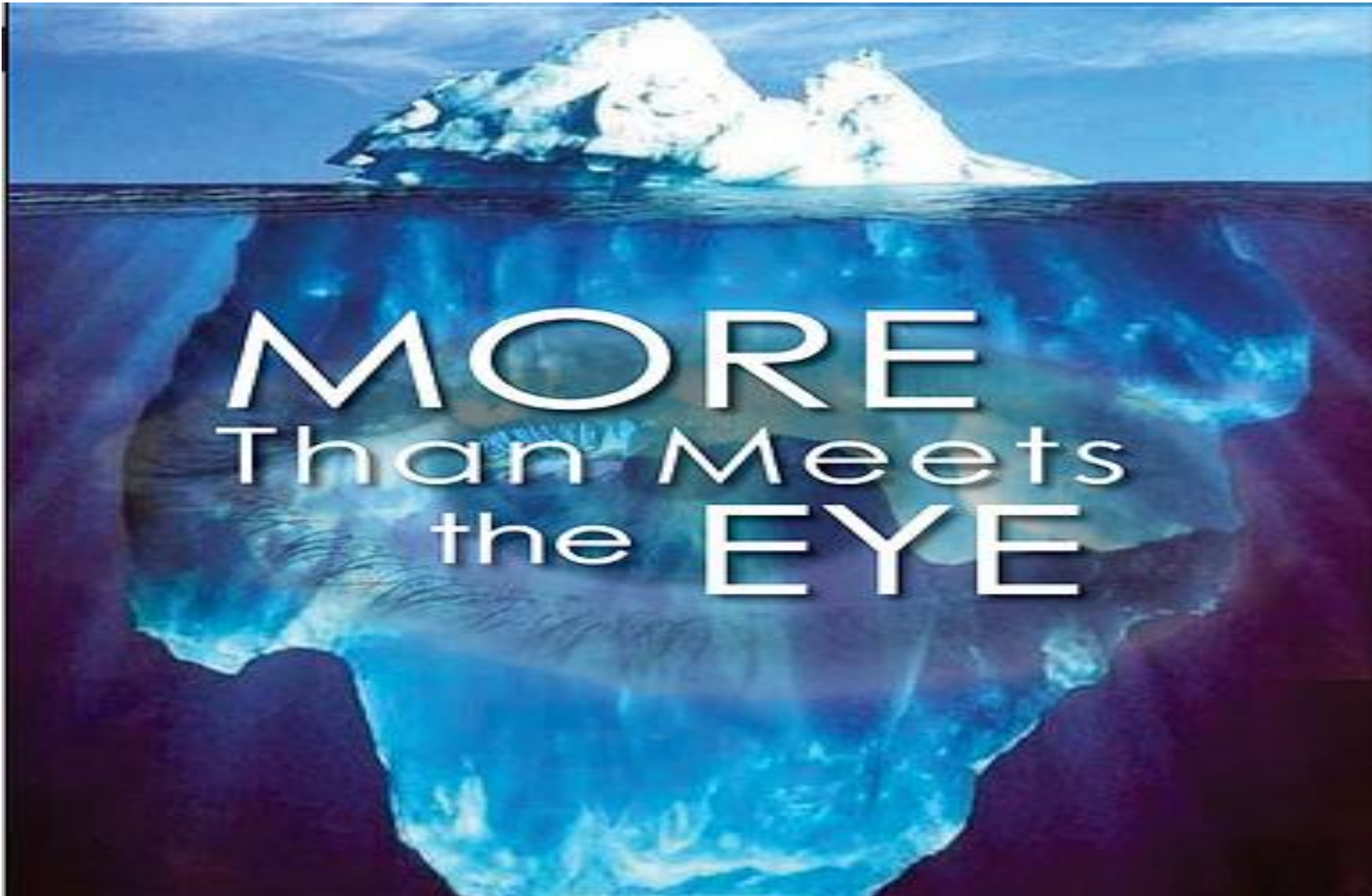
Business Reform

- 15% business tax rate
- Territorial tax system to level the playing field for American companies
- One-time tax on trillions of dollars held overseas
- Eliminate tax breaks for special interests

Process

- Throughout the month of May, the Trump Administration will hold listening sessions with stakeholders to receive their input and will continue working with the House and Senate to develop the details of a plan that provides massive tax relief, creates jobs, and makes America more competitive—and can pass both chambers.

Standard Deduction Increase



Meet Jon Jones



Income = \$70,000

State income taxes paid = \$3,500

Charitable contributions = \$2,500

2017 tax liability as single renter =
\$10,639

Tax Computation (Single Renter) – Current Law

Gross Income		\$ 70,000
Itemized Deductions:		
• State Income Tax	\$ 3,500	
• Charitable Contribution	<u>\$ 2,500</u>	
Total Itemized	\$ 6,000	
Standard Deduction	\$ 6,350	
Higher of Standard or Total		(\$ 6,350)
Personal Exemptions		<u>(\$ 4,050)</u>
Taxable Income		\$ 59,600
Tax		\$ 10,639

Tax Computation (Single Renter) – Blueprint

Gross income \$70,000

Itemized Deductions:

- State Income Tax \$ - 0 -
- Charitable Contribution \$ 2,500

Total Itemized \$ 2,500

Standard Deduction \$12,000

Higher of Itemized or Standard (\$12,000)

Personal exemptions (\$ - 0 -)

Taxable Income \$58,000

Tax \$ 9,567

Current Law Tax \$10,639

Blueprint Tax \$ 9,567

Tax Cut of \$ 1,072

Tax Computation (Single Owner) – Current Law

Gross Income		\$70,000
Itemized Deductions:		
• State Income Tax	\$ 3,500	
• Charitable Contribution	\$ 2,500	
• Real Estate Tax	\$ 3,300	
• MID	\$10,000	
Total Itemized	\$19,300	
Standard Deduction	\$ 6,350	
Higher of Itemized or Standard		(\$19,300)
Personal Exemptions		<u>(\$ 4,050)</u>
Taxable Income		\$46,650
Tax		\$ 7,401

Current law tax benefits of owning instead of renting = **\$ 3,238**

Tax Computation (Single Owner) – Blueprint

Gross Income		\$70,000
Itemized Deductions:		
• State Income Tax	\$ - 0 -	
• Charitable Contribution	\$ 2,500	
• Real Estate Tax	\$ - 0 -	
• MID	<u>\$10,000</u>	
Total Itemized	\$12,500	
Standard Deduction	\$12,500	
Higher of Itemized or Standard		(\$12,500)
Personal Exemptions		<u>(\$ - 0 -)</u>
Taxable Income		\$57,500
Tax		\$ 9,442

Current Law Tax	\$ 7,401
Blueprint Tax	<u>\$ 9,442</u>
Tax Increase of	\$ 2,041

Tax Computation (Married Renters, 1 child) – Current Law

Gross Income		\$140,000
Itemized Deductions:		
• State Income Tax	\$ 7,000	
• Charitable Contribution	<u>\$ 5,000</u>	
Total Itemized	\$12,000	
Standard Deduction	\$12,700	
Higher of Itemized or Standard		(\$ 12,700)
Personal & Dependency Exemptions		<u>(\$ 12,150)</u>
Taxable Income		\$115,150
Tax		\$ 20,265
Child Tax Credit		<u>\$ - 0 -</u>
Net Tax		\$ 20,265

Tax Computation (Married Renters, 1 child) – Blueprint

Gross Income		\$140,000
Itemized Deductions:		
• State Income Tax	\$ - 0 -	
• Charitable Contribution	<u>\$ 5,000</u>	
Total Itemized	\$ 5,000	
Standard Deduction	\$24,000	
Higher of Itemized or Standard		(\$ 24,000)
Personal & Dependency Exemptions		<u>(\$ - 0 -)</u>
Taxable Income		\$116,000
Tax		\$ 19,133
Child Tax Credit		\$ 1,500
Net Tax		\$ 17,633

Current Law Tax	\$20,265
Blueprint Tax	<u>\$17,633</u>
Tax Cut of	\$ 2,632

Tax Computation (Married Owners, 1 child) – Current Law

Gross Income		\$140,000
Itemized Deductions:		
• State Income Tax	\$ 7,000	
• Charitable Contribution	\$ 5,000	
• Real Estate Tax	\$ 3,300	
• MID	<u>\$10,000</u>	
Total Itemized	\$25,300	
Standard Deduction	\$12,700	
Higher of Itemized or Standard		(\$ 25,300)
Personal Exemptions		<u>(\$ 12,150)</u>
Taxable Income		\$102,550
Tax		\$ 17,115
Child Tax Credit		<u>\$ - 0 -</u>
Net Tax		\$ 17,115
Current law tax benefits of owning instead of renting =		\$ 3,150

Tax Computation (Married Owners, 1 child) – Blueprint

Gross Income		\$140,000
Itemized Deductions:		
• State Income Tax	\$ - 0 -	
• Charitable Contribution	\$ 5,000	
• Real Estate Tax	\$ - 0 -	
• MID	<u>\$10,000</u>	
Total Itemized	\$15,000	
Standard Deduction	\$24,000	
Higher of Itemized or Standard		(\$ 24,000)
Personal Exemptions		<u>(\$ - 0 -)</u>
Taxable Income		\$116,000
Tax		\$ 19,133
Child Tax Credit		\$ 1,500
Net Tax		\$ 17,633

Current Law Tax	\$17,115
Blueprint Tax	<u>\$17,633</u>
Tax Increase of	\$ 518

Summary

	<u>Effect of Tax Reform</u>	
Single renter	- \$1,072	
Single homeowner	+ <u>\$2,041</u>	
difference		\$3,113
Married renter, no kids	- \$2,145	
Married homeowner, no kids	+ <u>\$1,006</u>	
difference		\$3,151
Married renter, 1 child	- \$2,632	
Married homeowner, 1 child	+ <u>\$ 518</u>	
difference		\$3,150
Married renter, 3 children	- \$1,607	
Married homeowner, 3 children	+ <u>\$1,543</u>	
difference		\$3,150

Why NAR Opposes Blueprint-like Reform

1. Middle-income homeowners will pay more tax than renters.
2. Tax incentives for moving from renting to owning are reduced or eliminated.
3. Home values will drop, at least temporarily.

PwC Tax Model: Context, Construction, Results

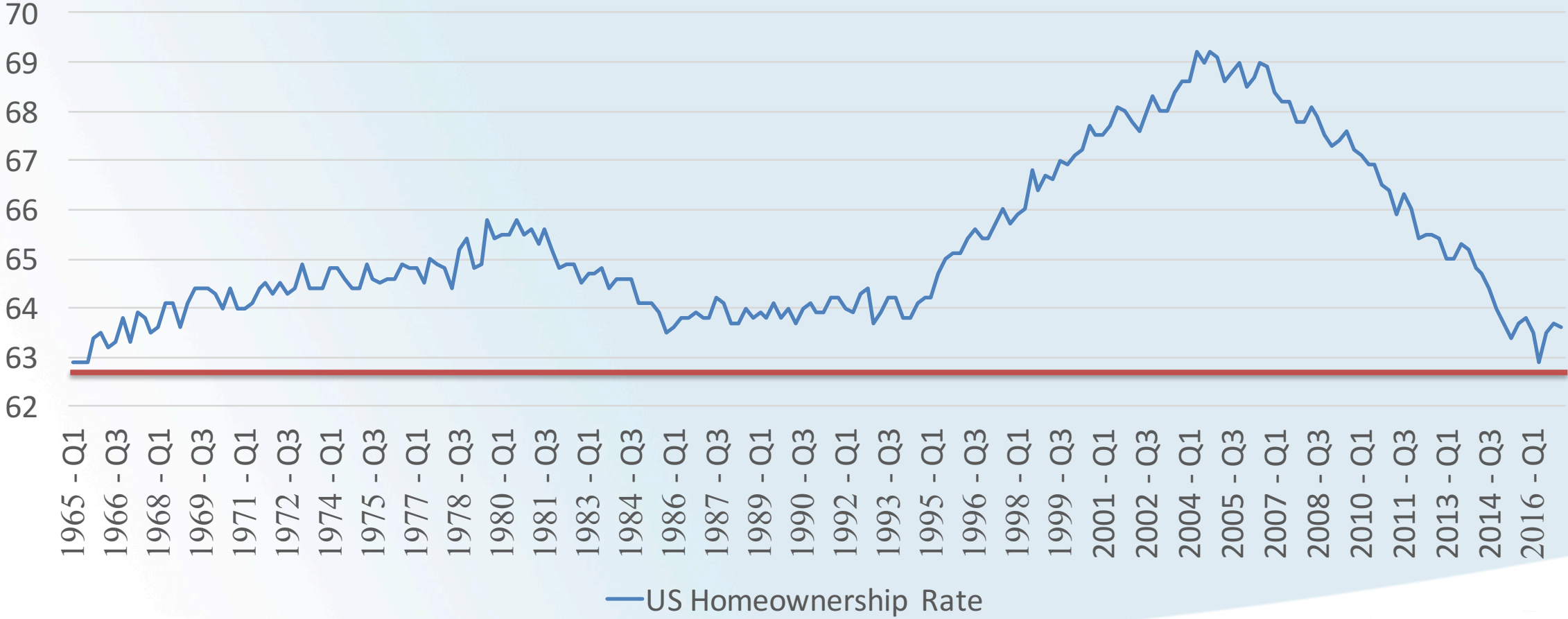
**Price Waterhouse Coopers now
does business as PwC**

Key Take-Aways

- A majority of middle-income homeowners see higher taxes as a result of this proposed tax reform and the share of federal income taxes paid by homeowners goes up.
- Tax incentives for moving from renting to owning are reduced or eliminated.
- Home values will drop, at least temporarily.

Context

Homeownership Rate in the US: Near All-Time Low

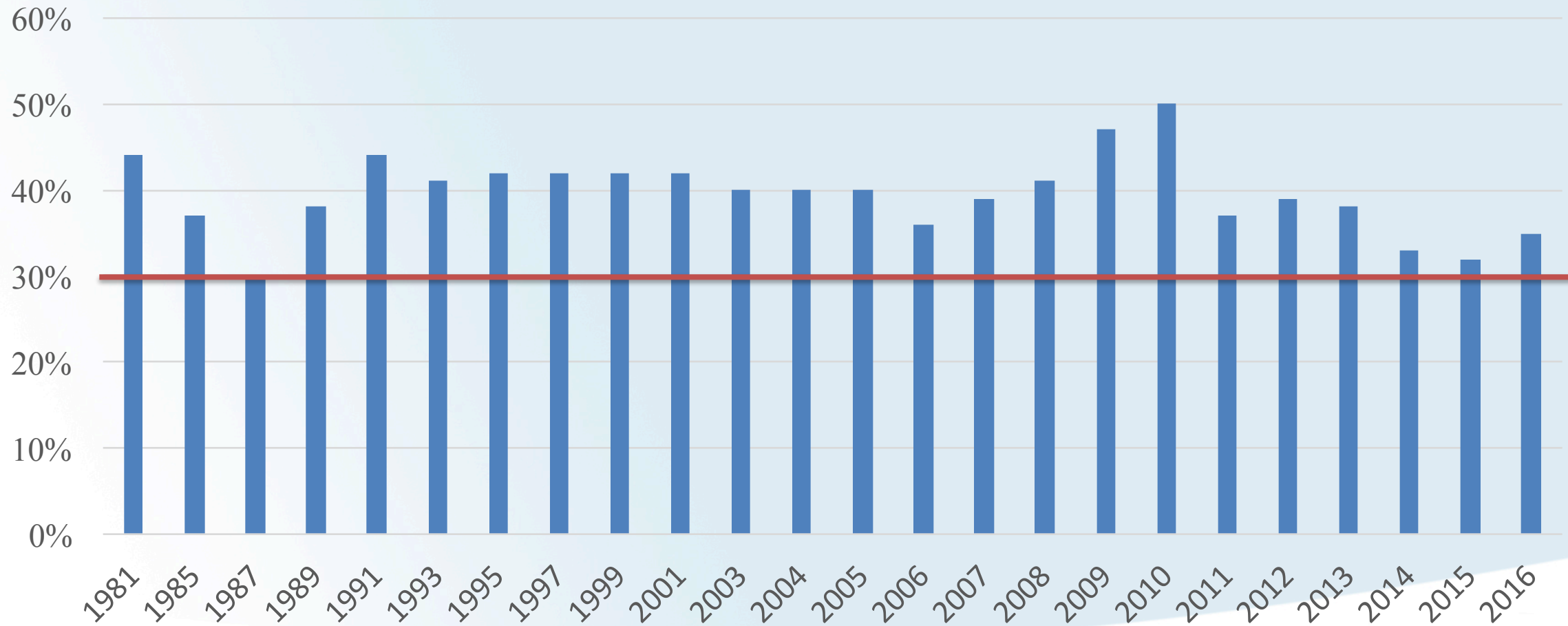


— US Homeownership Rate

Source: Census Bureau



First-time Home Buyers – also Near All-Time Low



Source: National Association of REALTORS® 2016 Profile of Home Buyers and Sellers

Model Construction

How to Create a Tax Model

- Step 1: Forecast key variables about the future of the economy (homeownership rate, interest rates, mortgages and home values)
- Step 2: Use relatively recent IRS tax payer level and make adjustments so that the recent data matches the future targets forecast in Step 1.
- Step 3: Decide what 'tax reform' looks like, and use these model tax payers to see what the impacts might be

Key Features of the PwC Tax Model

- Models the 10-year period 2018 through 2027
- Significant focus on 2018
 - year after tax reform implementation
- Includes filers and nonfilers
 - so that if tax reform affects the conditions under which people file, we will see the effects
 - Tax unit vs. household vs. individuals
- Includes age and income breakouts
 - Income is interesting, age is not particularly interesting
- Does not include state identifiers

“Blueprint-like” Model Tax Reform

- Increase in the standard deduction
- Lower tax rates
- Eliminates personal exemptions
- Eliminates all itemized deductions except for:
 - charitable contributions and
 - the mortgage interest deduction
- **Results Sneak Peak: Even though these deductions are “kept” most taxpayers will no longer benefit from them.**

Results

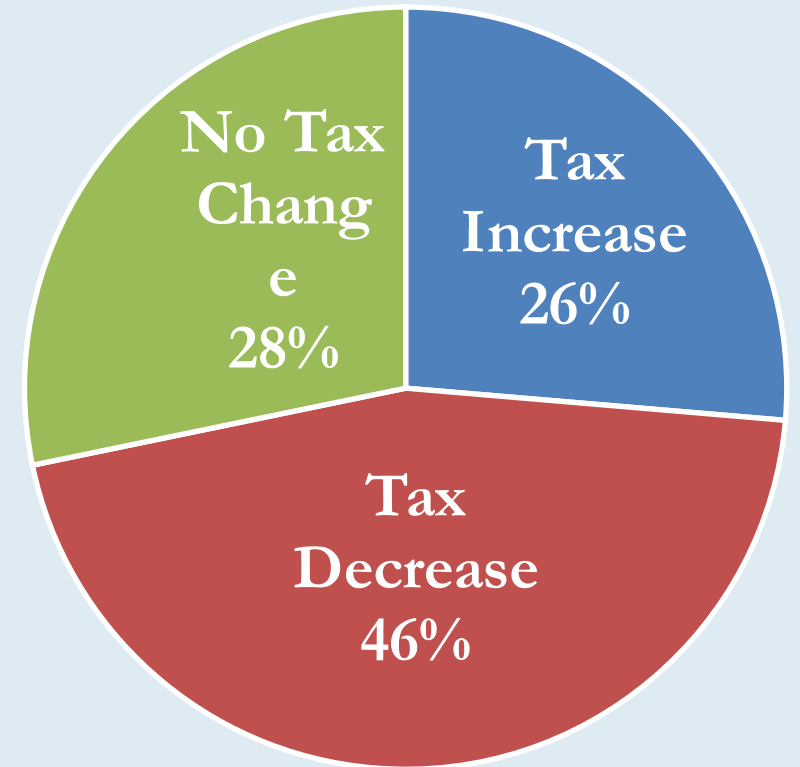
Current Law Features / Model Results for Nearly 174 Million Tax Payers

- Homeowners pay 83% of all federal income taxes
- 35.4 million claim the MID under current law
- Over 10-years (2018-2027) the current-law tax expenditure for housing benefits is:

Feature	Tax Expenditure
Mortgage Interest Deduction	\$1.0 Trillion
Real Estate Tax Deduction	\$0.43 Trillion
Combined	\$1.3 Trillion

Results? How does Tax Reform Affect Nearly 174 Million Tax Payers

- 46 million see higher taxes (26%)
(\$78 billion total)
- 79 million see lower taxes (45%)
(\$196 billion total)
- 49 million see no change (28%)



Results? How does Tax Reform Affect Nearly 174 Million Tax Payers

Nearly 46 Million Taxpayers See a Tax Increase

Homeowners

Non-owners

70%

30%

- *By comparison, homeowners are 41% of taxpayers with a decrease, 27% of taxpayers with no change, and 45% of taxpayers overall.*
- *In other words, homeowners are disproportionately likely to see tax increases under the model tax reform.*

Results? How does Tax Reform Affect Middle Class Tax Payers

What is “middle class”?

What is “Middle Class”?

- **Pew Research: \$46,960 to \$140,900**
(2/3 to 2x national median income for a four-person household)
- **Other definitions based on wealth or consumption**
- **Obama Task Force: homeownership, family vacations, a car, health and retirement security, college education for kids**

Source: <http://money.cnn.com/infographic/economy/what-is-middle-class-anyway/>

What is “Middle Class”?

- **CNN Calculator for Middle Class Income by Location:**

County Area	Min Middle Class	Max Middle Class
Loudon, VA	\$78,846	\$235,360
Santa Clara, CA	\$61,535	\$183,686
Geauga, OH	\$46,282	\$138,156
Buffalo, SD	\$28,500	\$43,144

- **We use income between \$50,000 and \$200,000**

Source: <http://money.cnn.com/interactive/economy/middle-class-calculator/>

See Also: <http://www.pewresearch.org/fact-tank/2016/05/11/are-you-in-the-american-middle-class/>

Results? How does Tax Reform Affect Middle Class Tax Payers

- What is “middle class”?
 - We use income between \$50,000 and \$200,000
- Middle class **homeowners** will face an **average tax hike of \$815** vs. an **average tax cut of \$516** for middle class **renters**
- A majority of middle class homeowners (56%) face a tax hike which is on average larger than the size of the tax cut received by 44% of middle class homeowners
 - The average middleclass homeowner tax increase among those facing higher taxes is \$2,153 compared to an average cut of \$895 among those homeowners who see a tax cut

Results? How does Tax Reform Affect the Incentives for Home Ownership?

- Homeowners pay **MORE THAN** 83% of all federal income taxes
- **MID claims drop 82%** from 35.4 million to 6.2 million tax filers
- Over 10-years (2018-2027) \$1.1 Trillion in tax expenditures for housing is gone:

Feature	Tax Expenditure	
	Current Law	Reform
Mortgage Interest Deduction	\$1.0 Trillion	\$0.2 Trillion
Real Estate Tax Deduction	\$0.4 Trillion	\$0
Combined	\$1.3 Trillion	\$0.2 Trillion

Short-run Impact on House Prices

- PwC used academic research to model the potential change in house prices based on the illustrative tax reform
- Academic research suggests that the change in house prices will equal:
 - the current-law cost of homeownership
vs. the future cost of homeownership
- PwC estimates that this is **more than 10% nationally**

Summary

- A majority of middle-income homeowners see higher taxes as a result of this proposed tax reform and the share of federal income taxes paid by homeowners goes up.
- Tax incentives for moving from renting to owning are reduced or eliminated.
- Home values will drop, at least temporarily.

PwC Tax Report

<http://narfocus.com/bilddbatabase/clientfiles/172/21/2888.pdf>