



TEXAS ASSOCIATION  
OF REALTORS®

# Economic Analysis of the Federal Tax Reform Proposal

September 2017



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# Executive Summary

# Executive Summary

## Introduction

Depending on which news source you read, the proposed tax plan, hereafter referred simply as “The Blueprint”, will pull America’s tax code out of antiquity and either save taxpayers billions of dollars **or** it will more deeply entrench our country in the throes of income equality by providing tax cuts to the wealthy at the expense of poor and middle-class.

If you want to know the truth, you are likely to get an unsatisfying answer: it depends. The Blueprint is light on details, which makes rigorous analysis difficult. However, there are many credible organizations – the Tax Policy Center, for one – that have extensively researched the proposal in an effort to estimate the net impact at the national level.

Even before performing an analysis, there are two things that can be known for certain, 1) tax reforms will impact individuals very differently based on demographics and 2) the same is true for states based on local tax rates.

To illustrate the second point, property tax rates in Texas are a perfect example. Texas has relatively high property tax rates, and homeowners can benefit greatly from an itemized exemption of their property taxes. A repeal of the property tax exemption would then be worse for homeowners in Texas compared to homeowners in other states.

It is for these reasons the Texas Association of REALTORS® retained AngelouEconomics (AE) to perform a fiscal and economic analysis of The Blueprint.

The purpose of the analysis is to better understand the unique impact that The Blueprint will have on Texans, and more specifically, Texas homeowners.

The findings of the study answer two important questions: who is impacted and by how much. The question of who is impacted is answered by looking at different income distributions of Texans. The question of how much is answered by looking at the total net impact of The Blueprint.

The total net impact is effectively the fiscal impact. It is the direct impact that The Blueprint will have on Texans’ take home income. However, to change the amount of money that people have in their pockets, is to change the spending patterns and behaviors of those same people.

An economic impact analysis was then used to capture the full effect of The Blueprint. It accomplishes this by measuring the extent to which the inflows and outflows of cash to Texas households gets compounded throughout the economy.

# Executive Summary

## Fiscal Impact of The Blueprint

The Blueprint includes many provisions for both households and businesses, however, this study focuses on the provisions that will impact Texas households. As such, the following provisions pertaining to household incomes are considered:

Tax Relief Provisions	Tax Raising Provisions
Consolidate Income Tax Rates	Repeal Select Itemized Deductions
Double the Standard Deduction	Remove the Head of Household Filing Status
Repeal the Alternative Minimum Tax	Repeal Personal Exemptions
<b>\$16.888 Billion</b>	<b>\$16.058 Billion</b>

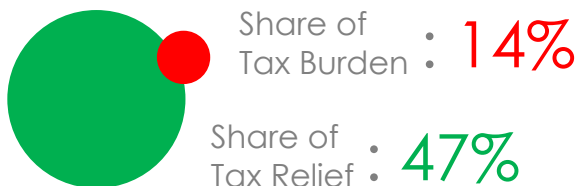
**Combined, these provisions would save Texas households over \$830 million in total tax expenditures in 2018.** However, all tax relief would come at the top of the income distribution – specifically those with adjusted gross incomes above \$200,000. **The Blueprint only represents tax relief to only 5% of Texas households.**

Fiscal Impacts by Income		
Adjusted Gross Income	Number of Households	2018 Net Tax Impact
\$0 - \$50,000	4,292,000 (48%)	<b>\$3.141 billion</b>
\$50,000 - \$100,000	2,626,000 (30%)	<b>\$1.408 billion</b>
\$100,000 - \$200,000	1,548,000 (17%)	<b>\$270.0 million</b>
\$200,000 or more	419,000 (5%)	<b>\$5.649 billion</b>
<b>Total</b>	<b>8,885,000 (100%)</b>	<b>\$830 million</b>

## Who Will Fund the Tax Reform Blueprint?

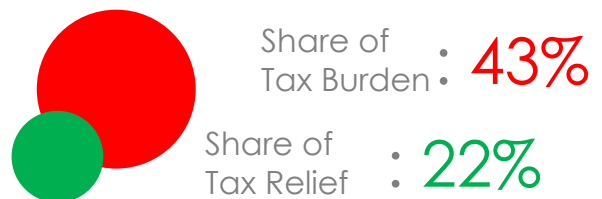
### Top 5% of Households

Households with Income > \$200K



### Bottom 48% of Households

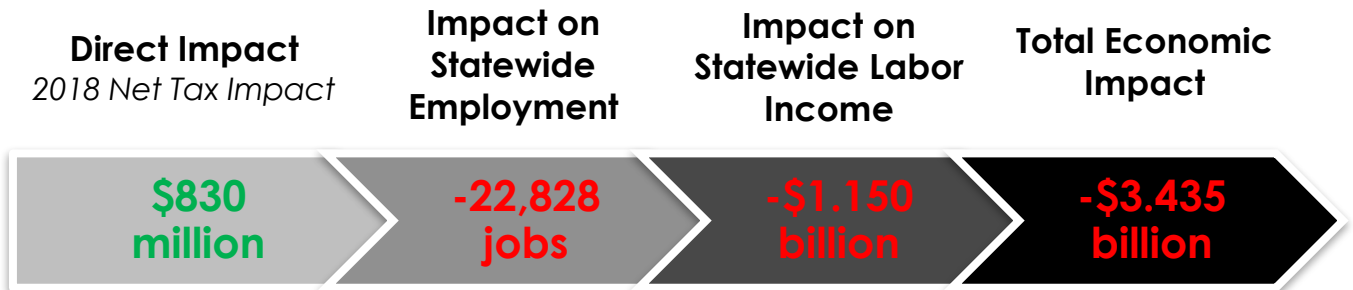
Households with Income < \$50K



Sources: AE, IMPLAN, Tax Policy Center, IRS

# Executive Summary

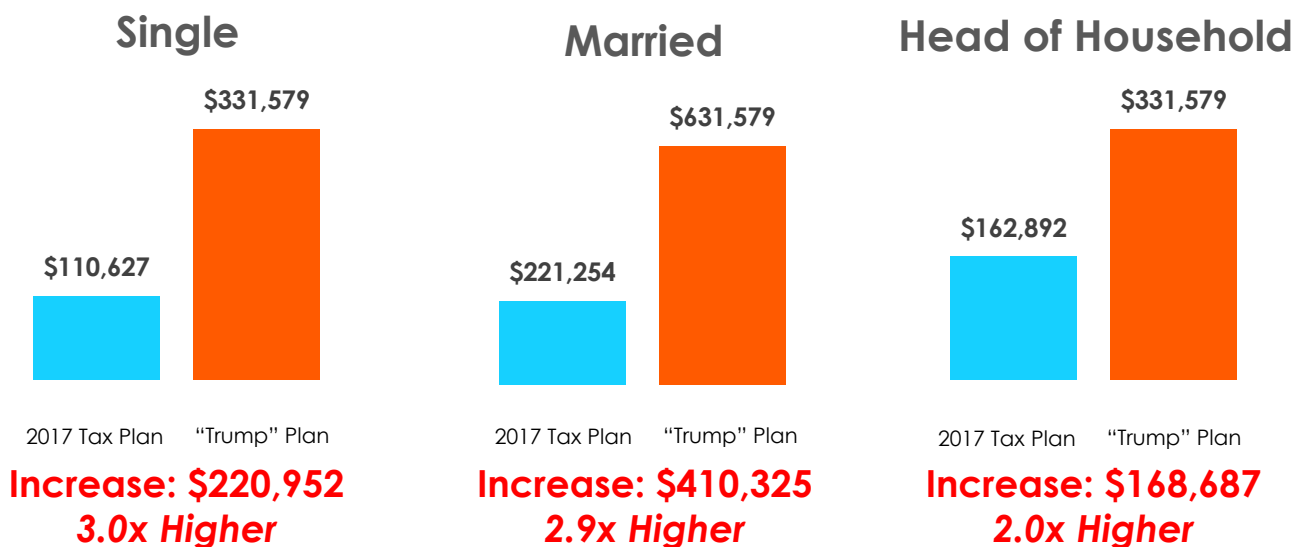
## Economic Impact of 2018 Net Tax Impact



Despite providing net tax relief throughout Texas, the Total Economic Impact of The Blueprint will have a negative outcome on the state economy. This is largely due to the asymmetric distribution of tax relief across income brackets. Again, tax relief is only coming to the top 5% of Texas households. The remaining 95% of Texas households can expect a higher overall tax burden.

## Break Even Home Price

Home ownership is an economic activity that is incentivized by targeted tax breaks in our tax system. **By doubling the standard deduction and eliminating the deduction for state and local property taxes, The Blueprint will raise the break even home price – or the minimum price needed to take advantage of these tax incentives.**



NOTE: The Head of Household filing status is for single or unmarried taxpayers who keep up a home for a qualifying dependent



# How Did We Get Here?

# How Did We Get Here?

## A Brief History of the Tax Code

Currently, the United States tax code is over 75,000 pages, three times larger than it was in 1976. Most experts agree that the overly complex nature of the tax system creates negative unintended consequences, including:

- Encouraging increased avoidance and evasion
- Undermining family financial planning
- Creating 'horizontal inequality', where individuals making the same income can pay significantly different taxes based on the different deductions and exemptions for which they qualify

Additionally, many Americans view the tax system as unfair, inefficient, and needlessly complicated. Moreover, according to the Pew Research Center, in 2015, 59% of the American public believed that the tax code was in need of a complete change. This has created a desire for tax reform that crosses both ideological and party lines.

Although there have been numerous changes to the tax code over the last three decades, the last major reform to the tax code was enacted when Congress and then President Reagan passed the Tax Reform Act of 1986 with bipartisan support.

The Tax Reform Act of 1986 aimed to encourage economic growth while remaining revenue neutral, by reducing individual tax rates and broadening the tax base.

Similarly, The Blueprint released by the Tax Reform Task Force on April 20, 2017, although vague on many details, outlines a similar approach of tax rate reduction and broadening of the tax base.

On the reduction side, The Blueprint seeks to reduce the number of tax brackets, eliminate several taxes including the estates tax, and reduce the corporate tax rate.

To broaden the tax base, The Blueprint has proposed eliminating all deductions other than the charitable giving and mortgage interest deduction. Additionally, The Blueprint aims to adopt a territorial system of taxing foreign-source income and impose a one time tax on unrepatriated foreign earnings, in order to encourage businesses to stay in the U.S.

When examining tax policy, it is important to note that our current tax code has a dual function: to raise revenue and to incentivize certain economic activities. Any study of the economic effects of changes to the tax code has to include both of these aspects.

**This study will examine the effects that The Blueprint will have on individual Texans, Texas homeowners, and the broader effects to the Texas economy.**





# The Blueprint

# The Blueprint

## Copy of The Blueprint



### 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.

# The Blueprint

## The Relevant Pieces

As previously stated, the goal of this study is to measure The Blueprint's impact on Texas, and more specifically, Texas homeowners. With that said, the provisions of The Blueprint pertaining to business reform are not considered in this study.

Moreover, there are otherwise relevant aspects of The Blueprint which have recently been declared dead, such as the 3.8% net investment tax, which is a component of the Affordable Care Act. Other provisions, such as the tax relief for families with child & dependent expenses have not been included since the details have been limited and too vague to conduct an adequate analysis. Additionally, the estate tax is excluded since the IRS does not include this provision in their state-level income tax data releases.

**Therefore, for the sake of clarity, the table below details the aspects of the proposal that are considered in this study.**

Relevant Components of Tax Reform Proposal	
Tax Relief for American Families, especially middle-income families:	
Reducing the 7 tax brackets to 3 tax	✓
Doubling the standard deduction	✓
Tax relief for families with child & dependent expenses	✗
Simplification:	
Eliminate targeted tax breaks	✓
Protect home ownership & charitable tax deductions	✓
Repeal the Alternative Minimum Tax	✓
Repeal the Head of Household filing status*	✓
Repeal exemptions for both taxpayers and dependents*	✓
Repeal the estate tax	✗
Health Care:	
Repeal the 3.8% Net Investment Tax	✗

*\*These provisions are from Candidate Trump's tax reform proposal and remain in place since they may still be included in his tax plan*



# Fiscal Impact

# Fiscal Impact

## Introduction

The following section provides a fiscal analysis of The Blueprint. To estimate the aggregate impact of this proposal, this study utilizes a study published by the Tax Policy Center (TPC) and 2014 IRS data specific to Texas.

Using traditional budget scoring methods, the TPC study estimates the federal revenue effects of The Blueprint. Figures could then be extrapolated for the state of Texas by using Texas specific IRS data. Therefore, the following section estimates the fiscal impact faced by Texas homeowners if The Blueprint becomes law.

## Proposed Changes to Current Tax Provisions

The Blueprint includes many provisions for both households and businesses – since business taxes are outside the scope of this study, they are not included in the analysis. Only provisions pertaining to household incomes were considered. The first three provisions will reduce tax receipts, while the remaining three provisions will raise federal revenues.

### Tax Relief Provisions

1. Consolidate income tax rates to 10%, 25%, and 35%
2. Double the standard deduction
3. Repeal the alternative minimum tax

<b>Total Tax Relief</b>
<b>\$16.888 billion</b>

### Federal Revenue Raising Provisions

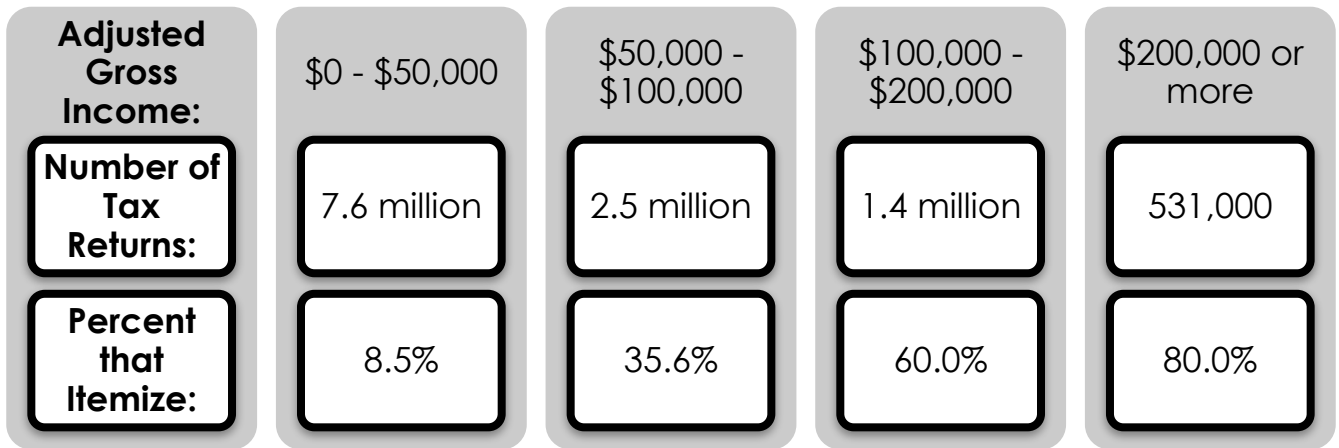
1. Repeal all itemized deductions except for the home mortgage interest deduction and deduction for charitable contributions.
2. Repeal the head of household filing status
3. Repeal personal exemptions

<b>Total New Revenue</b>
<b>\$16.058 billion</b>

# Fiscal Impact

## Aggregate Impact of the Proposed Plan

### Characteristics of Texas Taxpayers (2014 IRS)



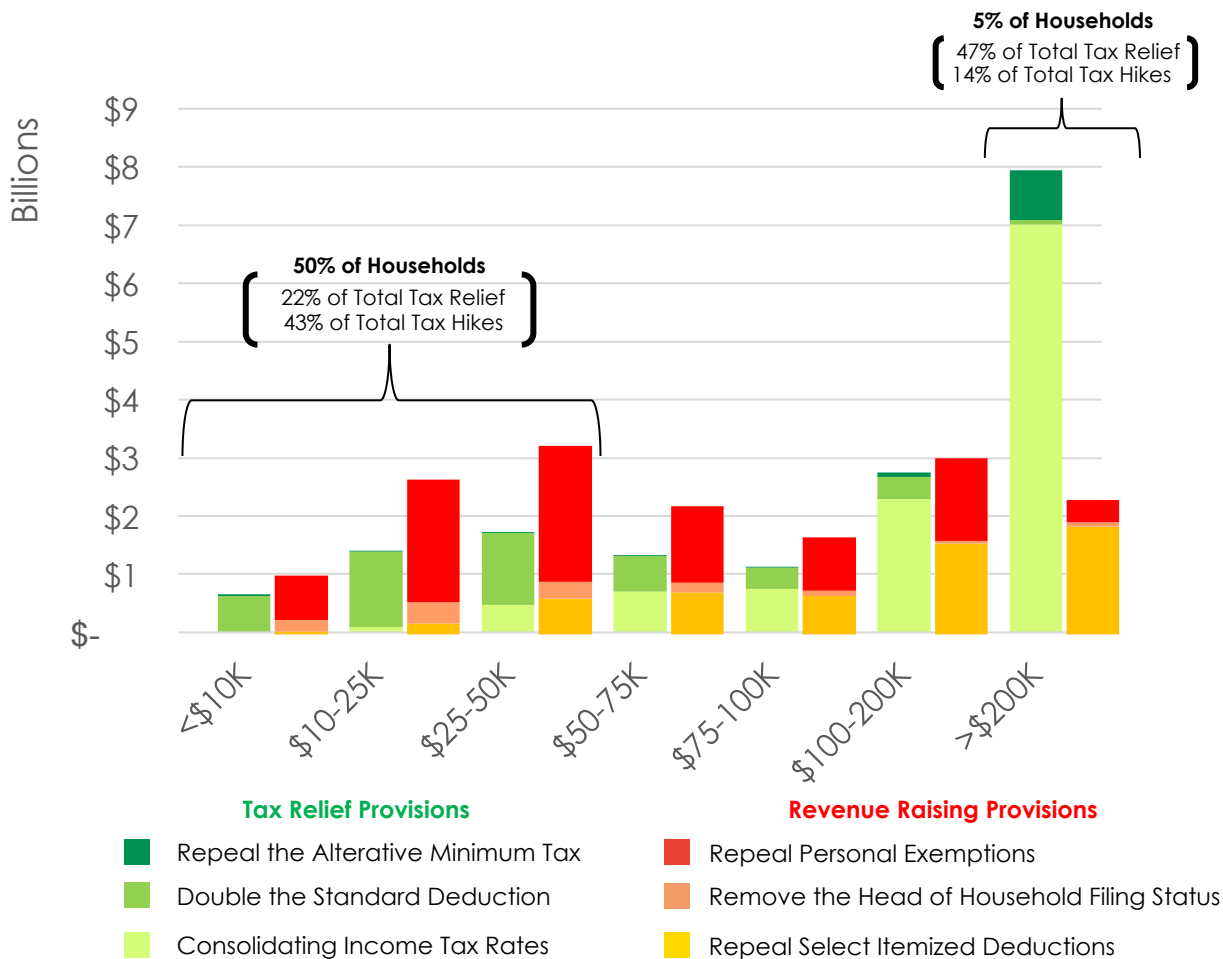
Combined, these provisions would save Texas households over \$830 million in total tax expenditures in 2018. However, all tax relief would come at the top of the income distribution – specifically those with adjusted gross incomes above \$200,000. Taxpayers in the \$25,000 - \$50,000 income bracket would receive the largest increase to their aggregate tax bill, while those in the \$1,000,000 or more income bracket would receive the largest decrease to their aggregate tax bill.

Adjusted Gross Income	2018 Net Tax Impact
No AGI	\$118,996,000
\$1 - \$10,000	\$234,674,000
\$10,000 - \$25,000	\$1,270,648,000
\$25,000 - \$50,000	\$1,517,236,000
\$50,000 - \$75,000	\$876,821,000
\$75,000 - \$100,000	\$531,002,000
\$100,000 - \$200,000	\$269,514,000
\$200,000 - \$500,000	\$1,460,539,000
\$500,000 - \$1,000,000	\$1,070,945,000
\$1,000,000 or more	\$3,117,848,000
<b>Total</b>	<b>\$830,441,000</b>

Sources: Tax Policy Center, AE

# Fiscal Impact

Distribution of Tax Provisions by Adjusted Gross Income



## Impact to Low Income Households

For low income households, the greatest provider of tax relief is the provision to double the standard deduction. This is unsurprising, given that doubling the deduction will effectively double the deductible amount for most single filers. Repealing personal exemptions would burden these taxpayers the most, which offsets a large portion of the relief given by doubling the standard deduction. This provision will be more burdensome for larger households.

## Impact to High Income Households

For high income households, the greatest provider of tax relief is the provision to consolidate income tax rates. This is also unsurprising, since households in the top tax bracket would be taxed at a rate that is 4.6% lower. Repealing select itemized deductions would burden these households most, since the majority of them use itemized deductions.

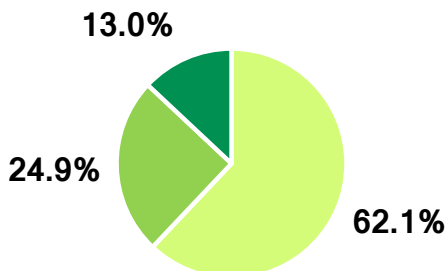
# Fiscal Impact

## Comparison to National Fiscal Impact

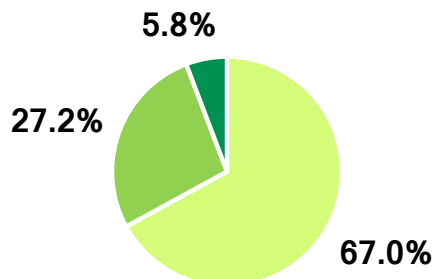
In aggregate, The Blueprint will impact Texas tax returns differently than it will impact the United States. This is caused by differing demographics and characteristics of taxpayers at the state level. To illustrate this disparity, consider the varying impact of each provision at the national vs. state level:

### Share of Total Tax Relief Provisions

United States



Texas

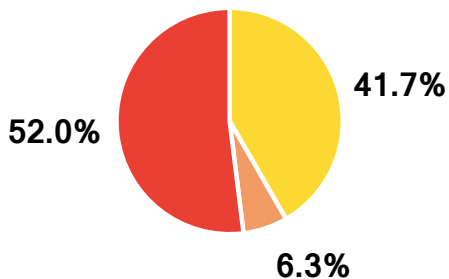


■ Repeal the Alternative Minimum Tax ■ Double the Standard Deduction ■ Consolidating Income Tax Rates

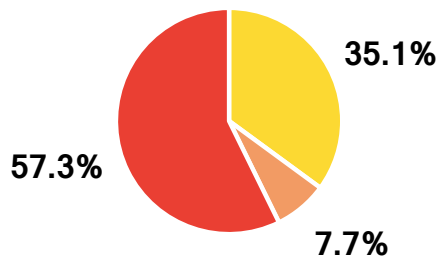
In Texas, a smaller percentage of taxpayers utilize the alternative minimum tax so repealing it would provide less relief at the state level. Concurrently, a greater proportion of total relief would come from doubling the standard deduction and consolidating income tax rates at the state level.

### Share of Total Revenue Raising Provisions

United States



Texas



■ Repeal Personal Exemptions ■ Remove the Head of Household Filing Status ■ Repeal Select Itemized Deductions

Among revenue raising provisions, Texas taxpayers would be burdened more by removing personal exemptions and the head of household filing status. Additionally, the impact of repealing select itemized deductions would not be as drastic at the state level.



# Fiscal Impact

## Tax Relief Provision 1: Consolidate Income Tax Rates

In the current federal tax code, there are seven tax rates for each income bracket: 10%, 15%, 25%, 28%, 33%, 35%, and 39.6%. The Blueprint would reduce the number of tax brackets to three, and consolidate to the following rates: 10%, 25%, and 35%. A summary of the proposed tax brackets is below:

Single Tax Filers		
Lower Bound	Upper Bound	Tax Rate
\$0	\$37,500	10%
\$37,500	\$112,500	25%
\$112,500	And over	35%

Married Tax Filers		
Lower Bound	Upper Bound	Tax Rate
\$0	\$75,000	10%
\$75,000	\$225,000	25%
\$225,000	And over	35%

In total, consolidating income tax rates would save Texas households nearly \$11.3 billion in 2018.

Adjusted Gross Income	2018 Tax Impact
No AGI	\$1,739,000
\$1 - \$10,000	\$3,113,000
\$10,000 - \$25,000	\$84,740,000
\$25,000 - \$50,000	\$478,225,000
\$50,000 - \$75,000	\$701,334,000
\$75,000 - \$100,000	\$747,586,000
\$100,000 - \$200,000	\$2,283,404,000
\$200,000 - \$500,000	\$2,247,107,000
\$500,000 - \$1,000,000	\$1,193,199,000
\$1,000,000 or more	\$3,578,347,000
<b>Total</b>	<b>\$11,318,794,000</b>

# Fiscal Impact

## Tax Relief Provision 2: Double the Standard Deduction

The Blueprint seeks to double the standard deduction for each filing status. This provision would provide substantial tax relief across each income bracket. A summary of the proposed standard deduction changes can be found below:

Proposed Changes to the Standard Deduction			
	Single Filers	Married Filers	Head of Household Filers
<b>2017</b>	\$6,350	\$12,700	\$9,350
<b>The Blueprint</b>	\$12,600	\$24,000	\$12,600*

\*The head of household filing status would be removed, placing these taxpayers in the single filing category.

**In total, doubling the standard deduction would save Texas households nearly \$4.6 billion in 2018.**

Adjusted Gross Income	2018 Tax Impact
No AGI	\$0
\$1 - \$10,000	\$626,860,000
\$10,000 - \$25,000	\$1,297,103,000
\$25,000 - \$50,000	\$1,227,458,000
\$50,000 - \$75,000	\$616,840,000
\$75,000 - \$100,000	\$370,909,000
\$100,000 - \$200,000	\$383,151,000
\$200,000 - \$500,000	\$53,541,000
\$500,000 - \$1,000,000	\$11,022,000
\$1,000,000 or more	\$8,263,000
<b>Total</b>	<b>\$4,595,147,000</b>

# Fiscal Impact

## Tax Relief Provision 3: Repeal the Alternative Minimum Tax

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. The Blueprint would repeal this tax, which would provide tax relief for all income brackets.

**In total, repealing the alternative minimum tax would save Texas households over \$974 million in 2018.**

Adjusted Gross Income	2018 Tax Impact
No AGI	\$17,819,000
\$1 - \$10,000	\$383,000
\$10,000 - \$25,000	\$925,000
\$25,000 - \$50,000	\$2,110,000
\$50,000 - \$75,000	\$5,248,000
\$75,000 - \$100,000	\$13,816,000
\$100,000 - \$200,000	\$78,259,000
\$200,000 - \$500,000	\$504,072,000
\$500,000 - \$1,000,000	\$161,149,000
\$1,000,000 or more	\$190,594,000
<b>Total</b>	<b>\$974,375,000</b>

# Fiscal Impact

## Revenue Raising Provision 1: Repeal Select Itemized Deductions

In the current tax code, there are a number of targeted deductions that are used to reduce an individual's or household's tax bill. These include deductions for medical and dental expenses, other taxes paid, interest paid, charitable contributions, casualty and theft losses, job expenses, and other miscellaneous deductions. The tax reform blueprint seeks to remove all itemized deductions, except for the home mortgage interest paid and charitable contributions.

While the incentive to purchase a home – as opposed to renting – will remain for some individuals and households, this provision, coupled with doubling the standard deduction, will reduce the number of taxpayers that will benefit from this incentive. In aggregate, this provision would raise tax burdens across income brackets.

**In total, repealing most itemized deductions will cost Texas households an additional \$5.6 billion in taxes.**

Adjusted Gross Income	Percent that Choose to Itemize their Deductions by AGI	2018 Tax Impact
No AGI	0%	\$0
\$1 - \$10,000	2%	-\$50,939,000
\$10,000 - \$25,000	5%	-\$182,243,000
\$25,000 - \$50,000	16%	-\$618,082,000
\$50,000 - \$75,000	32%	-\$720,775,000
\$75,000 - \$100,000	42%	-\$658,580,000
\$100,000 - \$200,000	60%	-\$1,551,510,000
\$200,000 - \$500,000	82%	-\$948,388,000
\$500,000 - \$1,000,000	77%	-\$267,076,000
\$1,000,000 or more	69%	-\$633,565,000
<b>Total</b>	<b>23%</b>	<b>-\$5,626,158,000</b>

# Fiscal Impact

## Revenue Raising Provision 2: Remove Head of Household Filing Status

Currently, if a taxpayer is unmarried, pays over half of the costs associated with keeping up a home, and has a qualified dependent living with them, they can file for the head of household filing status. In most cases, this status will lower a qualified individuals tax burden since it provides lower tax rates and a higher standard deduction.

As a candidate, President Trump proposed to remove this filing status, which would force these individuals to move to either the "married filing separately" or "single" filing status.

**In total, removing the head of household filing status would cost Texans an additional \$1.2 billion in taxes.**

Adjusted Gross Income	2018 Tax Impact
No AGI	-\$53,552,000
\$1 - \$10,000	-\$141,855,000
\$10,000 - \$25,000	-\$362,198,000
\$25,000 - \$50,000	-\$286,976,000
\$50,000 - \$75,000	-\$166,118,000
\$75,000 - \$100,000	-\$95,488,000
\$100,000 - \$200,000	-\$47,260,000
\$200,000 - \$500,000	-\$28,916,000
\$500,000 - \$1,000,000	-\$27,108,000
\$1,000,000 or more	-\$25,626,000
<b>Total</b>	<b>-\$1,235,097,000</b>

# Fiscal Impact

## Revenue Raising Provision 3: 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 may have. In 2017, this amount was \$4,050 for each exemption.

As a candidate, President Trump proposed to repeal this exemption, which would increase the tax burden across each income bracket.

**In total, repealing personal exemptions for taxpayers and dependents would cost Texans an additional \$9.2 billion in taxes.**

Adjusted Gross Income	2018 Tax Impact
No AGI	-\$85,001,000
\$1 - \$10,000	-\$672,236,000
\$10,000 - \$25,000	-\$2,108,976,000
\$25,000 - \$50,000	-\$2,319,970,000
\$50,000 - \$75,000	-\$1,313,351,000
\$75,000 - \$100,000	-\$909,246,000
\$100,000 - \$200,000	-\$1,415,557,000
\$200,000 - \$500,000	-\$371,876,000
\$500,000 - \$1,000,000	-\$241,000
\$1,000,000 or more	-\$164,000
<b>Total</b>	<b>-\$9,196,618,000</b>

# Fiscal Impact

## Fiscal Impact Conclusions

### **Tax Relief Provision 1: Consolidate Income Tax Rates**

In the current tax code, there are seven tax rates for each income bracket. Under The Blueprint, the number of tax brackets would be reduced to three rates: 10%, 25%, and 35%.

### **Tax Relief Provision 2: Double the Standard Deduction**

The tax reform blueprint seeks to double the standard deduction for each filing status.

### **Tax Relief Provision 3: Repeal the Alternative Minimum Tax**

The alternative minimum tax is a provision which ensures that wealthy taxpayers are charged a minimum amount on their taxes since certain benefits significantly reduce tax burdens. The Blueprint seeks to eliminate this provision.

### **Revenue Raising Provision 1: Repeal Select Itemized Deductions**

Currently, there are numerous itemized deductions that can be used to reduce tax bills. Under The Blueprint, all itemized deductions would be repealed, except for the home mortgage interest and state and charitable contributions.

### **Revenue Raising Provision 2: Remove the Head of Household Filing Status**

As a candidate, President Trump campaigned on removing this filing status. If removed, these filers would move to the single filing status.

### **Revenue Raising Provision 3: Repeal Personal Exemptions**

As a candidate, President Trump proposed to repeal personal and dependent exemptions. This provision is offset by increased standard deduction amounts.

## Net Impacts by Provision

<b>Provision</b>	<b>Net Tax Impact</b>
Tax Relief Provision 1: Consolidate Income Tax Rates	<b>\$11.319 billion</b>
Tax Relief Provision 2: Double the Standard Deduction	<b>\$4.595 billion</b>
Tax Relief Provision 3: Repeal the Alternative Minimum Tax	<b>\$974 million</b>
Revenue Raising Provision 1: Repeal Select Itemized Deductions	<b>-\$5.626 billion</b>
Revenue Raising Provision 2: Remove Head of Household Filing Status	<b>-\$1.235 billion</b>
Revenue Raising Provision 3: Repeal Personal Exemptions	<b>-\$9.197 billion</b>
<b>Net Tax Impact</b>	<b>\$830 million</b>

Sources: Tax Policy Center, AE



# Economic Impact



# Economic Impact

## Introduction

In aggregate, these provisions would provide tax relief for the state of Texas. However, as previously illustrated, tax relief arrives at the top of the tax bracket (AGI over \$200,000) while those at the bottom and middle of the tax bracket will pay more in aggregate taxes.

<b>Fiscal Impact of The Blueprint</b>	
<b>Adjusted Gross Income</b>	<b>2018 Net Tax Impact</b>
\$0 - \$50,000	<b>\$3.141 billion</b>
\$50,000 - \$100,000	<b>\$1.408 billion</b>
\$100,000 - \$200,000	<b>\$270 million</b>
\$200,000 or more	<b>\$5.649 billion</b>
<b>Total</b>	<b>\$830 million</b>

Changes to after-tax income will impact subsequent consumption, investment, and saving behavior throughout the economy. Quite simply, if individuals or households are forced to pay more in taxes, they will have less income available to spend throughout the economy. Subsequently, these spending adjustments are translated into increased or decreased revenue for local businesses. As these businesses experience revenue growth (or lack thereof), they can adjust their spending on new goods or employees. Ultimately, these adjustments act as a lever on the economic vibrancy of the state, either accelerating or decelerating economic growth.

AngelouEconomics employed the IMPLAN (Impact Analysis for PLANning) model to measure how these changes to after-tax income will impact the Texas economy. The total economic output of The Blueprint is broken down into two income groups: Below \$200,000 and Above \$200,000. The following dollar amounts given in this report reflect the value of 2017 dollars.

The IMPLAN model utilizes multipliers that are specific to the state of Texas. The multipliers capture the unique relationships that exist between industries in Texas. Through these multipliers, the model is able to determine how changes in income impacts jobs, labor income, and total economic output. Please refer to the appendix for additional information.

# Economic Impact

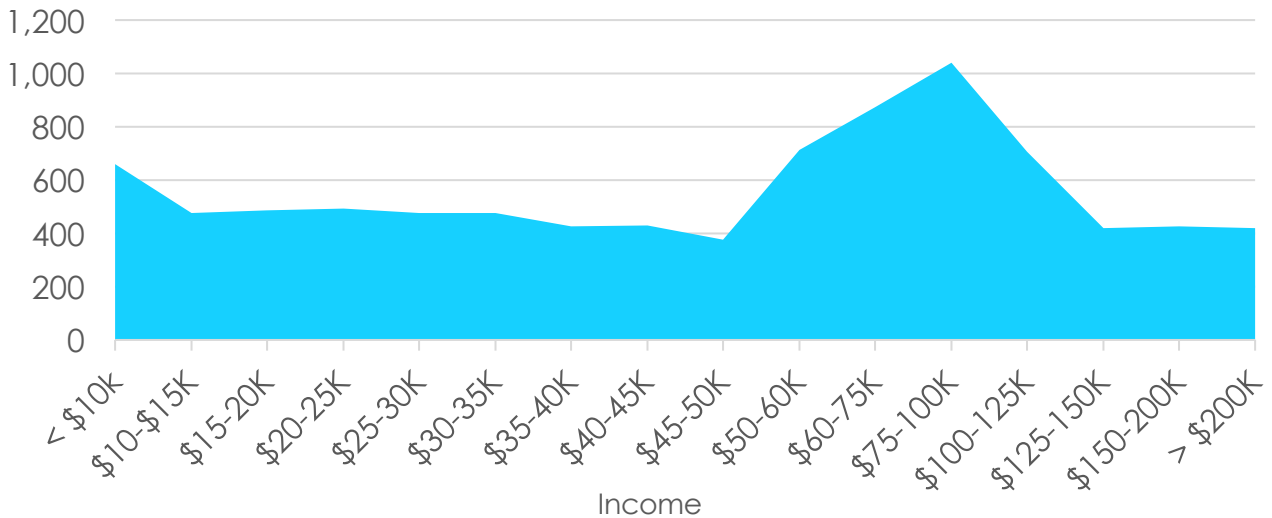
## Total Economic Impact

Adjusted Gross Income	Employment	Labor Income	Total Output
Below \$200,000	<b>-45,173</b>	<b>-\$2.187 billion</b>	<b>-\$6.600 billion</b>
Above \$200,000	<b>22,345</b>	<b>\$1.037 billion</b>	<b>\$3.165 billion</b>
<b>Total</b>	<b>-22,828</b>	<b>-\$1.150 billion</b>	<b>-\$3.435 billion</b>

Despite providing net tax relief throughout the state of Texas, the total economic impact of The Blueprint will have a negative economic impact on the state. To understand how this is possible, consider the household income distribution in Texas:

Number of Households

Distribution of Texas Households by Income  
(Thousands)



There are approximately 419,000 households with income above \$200,000 in Texas – compared to over 8.4 million households with income under \$200,000. Therefore, **while the net tax impact might be positive under The Blueprint, this policy will have an overwhelming negative impact on the majority of households in Texas and the economy as a whole.**

# Economic Impact

## Impact to Major Industries in Texas

These estimates are based on reduced consumer spending which is caused by increased tax liabilities under The Blueprint.



Healthcare: **-\$494.0 million**



Real Estate: **-\$429.2 million**



Retail: **-\$283.4 million**



Banking & Finance: **-\$261.1 million**



Wholesale Trade: **-\$172.3 million**



Telecommunications: **-\$168.6 million**



Insurance: **-\$147.1 million**



Food & Beverage: **-\$144.0 million**



Pharmaceuticals: **-\$45.2 million**



Automotive Maintenance: **-\$43.5 million**



# Break Even Home Price

# Break Even Home Price

## Introduction

Home ownership is an economic activity that has great benefits in our current tax system. Rather than selecting the standard deduction, individuals and households may elect to itemize pre-determined deductions if the sum of these deductions are greater than the standard deduction amount.

Currently, there are two itemized deductions that directly benefit homeowners:

1. Mortgage Interest Deduction
2. Local Property Tax Deduction

In The Blueprint, the Local Property Tax Deduction will be repealed. This would limit the options available to homeowners and effectively increase the tax liability of Texas households.

For some homeowners, it would limit their ability to deduct certain items from their taxable income, and push them to a threshold where the standard deduction would be more beneficial. For others, they may still benefit from an itemized return, but it would increase their income subject to federal income tax, and therefore, their tax liability.

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 relief via itemized deductions.

## Upward Pressure

The Blueprint threatens to raise the break even home price for taxpayers. Raising the break even home price would negatively impact many would-be home buyers, since it would require more expensive homes to receive tax relief via the itemized deduction.

The Blueprint places upward pressure on the break even home price in two ways:

- 1. Doubling the standard deduction**
- 2. Eliminating the itemized deduction for local property taxes**

Doubling the standard deduction will increase the break even point for taxpayers as they weigh the itemized vs. standard deduction. Further, eliminating the deduction for local property taxes 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 benefits associated with purchasing a home.**

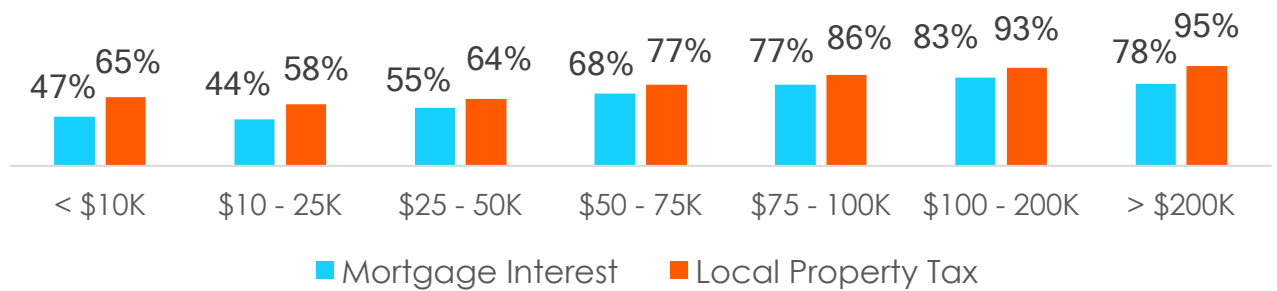
\*Pease limitations on itemized deductions limit the benefit of itemized deductions for high income taxpayers.

# Break Even Home Price

In Texas, about 23% of filers elect to itemize their deductions. In turn, this exempts over \$70.3 billion from being subject to income tax. Central to itemized deductions are the home mortgage interest and property tax deductions – both are key contributors to the number of itemized deductions filed and the dollar volume of total deductions.

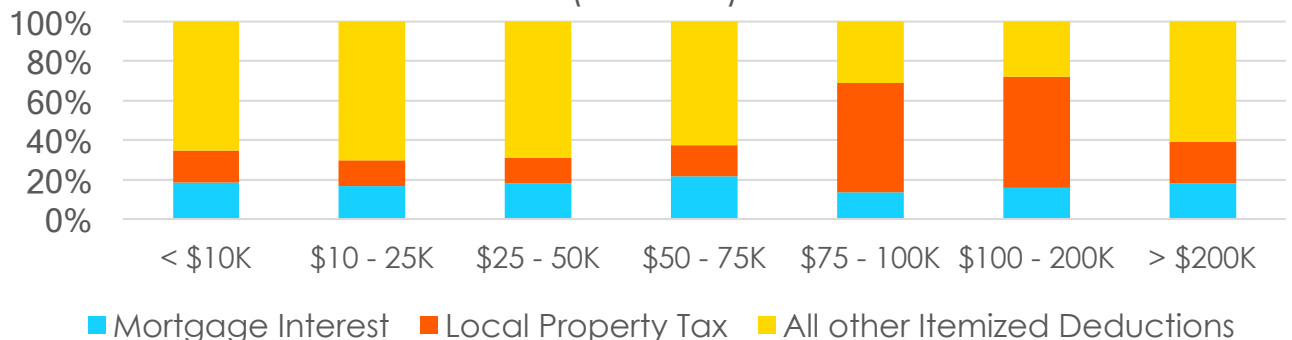
Across all itemized deductions, nearly 72% utilize the mortgage interest deduction, while over 82% take the local property tax deduction. Across all income brackets, more filers elect to take the local property tax deduction over the mortgage interest deduction. **Eliminating the deduction for local property taxes would impact 2.3 million filers in Texas.**

Mortgage Interest & Local Property Tax Deductions  
Among Filers that Itemize Deductions  
(2014 IRS)



By dollar volume, 19% of itemized deductions are for property taxes while 22% are for mortgage interest deductions. The percent that utilize the property tax deduction is significant among households with adjusted gross incomes of \$75,000 to \$200,000 – accounting for over 55% of the total dollar volume of deductions. **Eliminating the deduction for local property taxes would subject an additional \$13.7 billion in aggregate incomes to taxes.**

Dollar Volume of Itemized Deductions  
(2014 IRS)



# Break Even Home Price

## Texas Homeowners

For Texas homeowners, the break even home price is determined by using the following statewide averages:

Assumptions	
Parameter	Statewide Average
Property Tax Rate	1.94%
Interest Rate	3.80%

Break even home prices were determined using actual 2017 IRS standard deductions and proposed standard deduction amounts included in the proposal.

Standard Deduction Amounts		
	2017 IRS	The Blueprint
Single	\$6,350	\$12,600
Married	\$12,700	\$24,000
Head of Household*	\$9,350	\$12,600

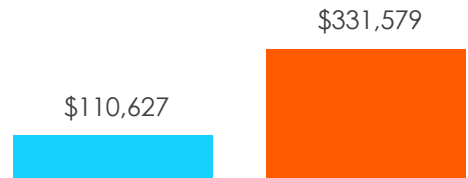
\*Head of Households revert back to the single filing status

Under the 2017 tax code, the break even home price is the standard deduction divided by the sum of the property tax rate and interest rate. Since The Blueprint proposes to eliminate the property tax deduction, the break even home price under the proposal is the standard deduction divided by the interest rate.

**Across each filing type, the break even home price will increase significantly for Texas home owners. The Blueprint will price buyers out of the market, and limit home buying activity throughout the state.**

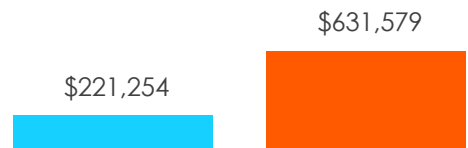
## Break Even Home Price by Filing Status

### Single



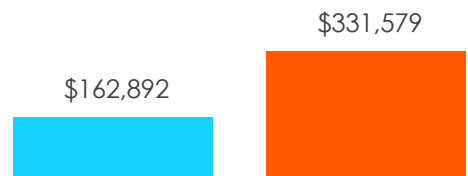
**Increase: \$220,952 – 3.0x Higher**

### Married



**Increase: \$410,325 – 2.9x Higher**

### Head of Household



**Increase: \$168,687 – 2.0x Higher**

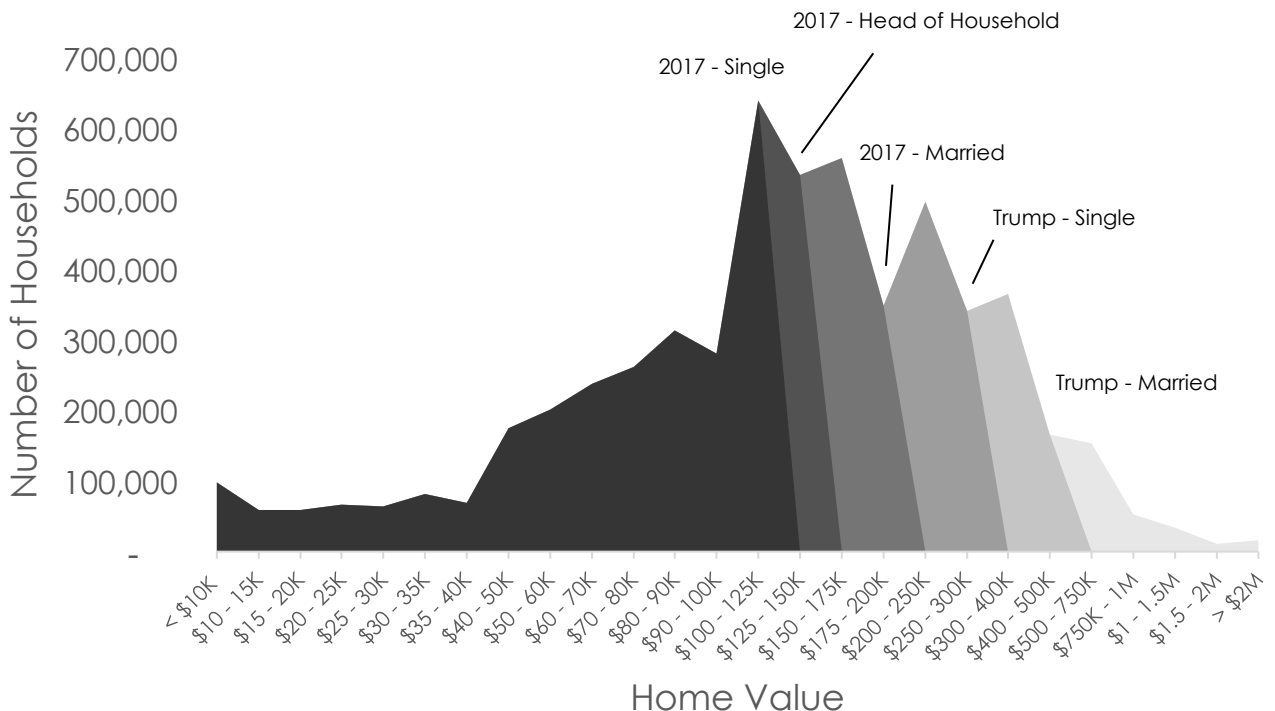
# Break Even Home Price

## Qualifying Homes

Based on the current distribution of home values in Texas, we are able to understand how many homeowners would 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 \$221,254. Currently, 29% of homes in Texas have values greater than or equal to this break even level. Under The Blueprint, the break even home price for married filers jumps to \$631,579 – a level in which just 5% of homes would qualify. **The Blueprint threatens to crowd the majority of Texas homeowners out of the benefits associated with owning and purchasing a home.**

Households That Qualify for Home Ownership Tax Incentive		
	2017 IRS	The Blueprint
<b>Single</b>	54%	14%
<b>Married</b>	29%	5%
<b>Head of Household</b>	45%	14%

Texas Households Who's Home Value Meets Each Break Even Home Price



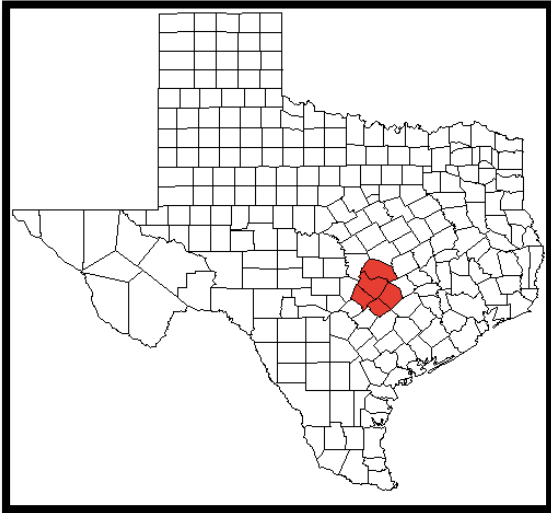
Sources: AE, Census Bureau





# Case Studies

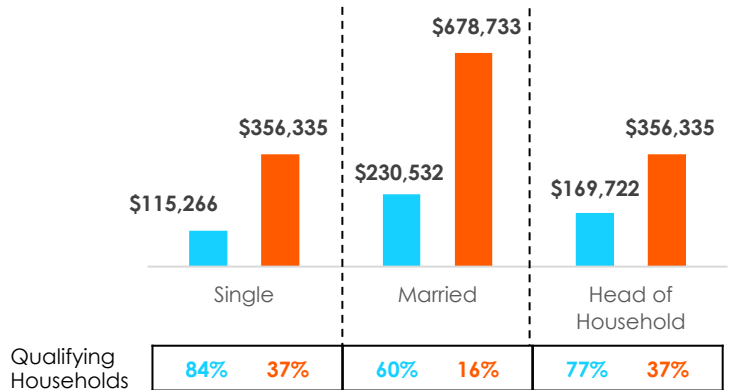
# Case Study: Austin



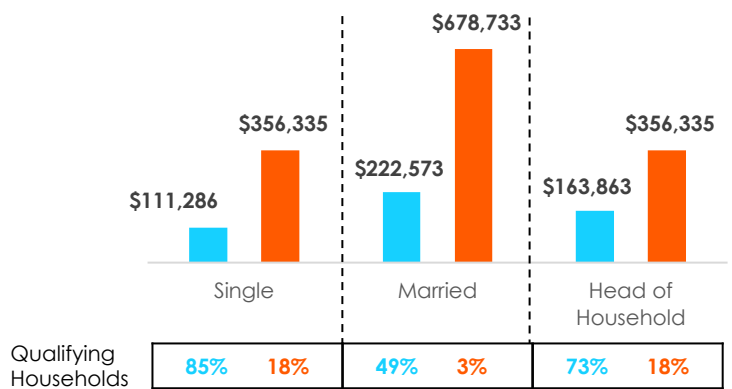
Travis County has one of the highest median home values of any county in the state of Texas. Despite this, the percent of qualifying households for the home ownership incentive would be reduced drastically under The Blueprint, regardless of filing status.

For Williamson County, only 3% of current households would qualify for the tax incentives given under the married filing status. This is the lowest qualifying percentage of any filing status across these three counties.

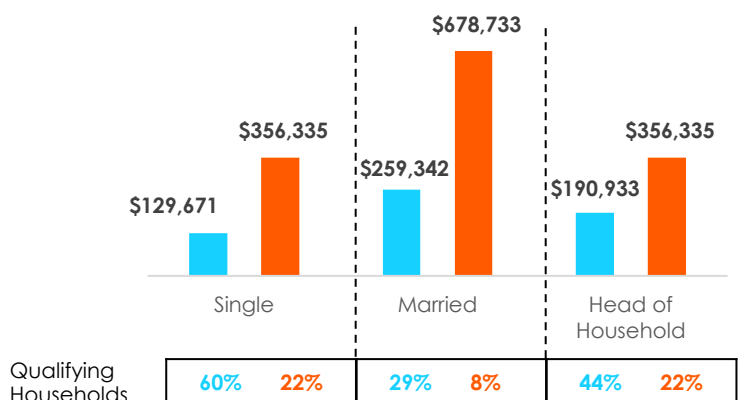
## Travis County



## Williamson County

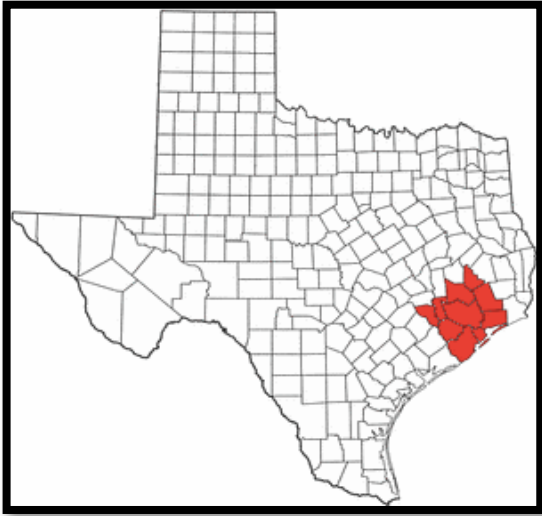


## Burnet County



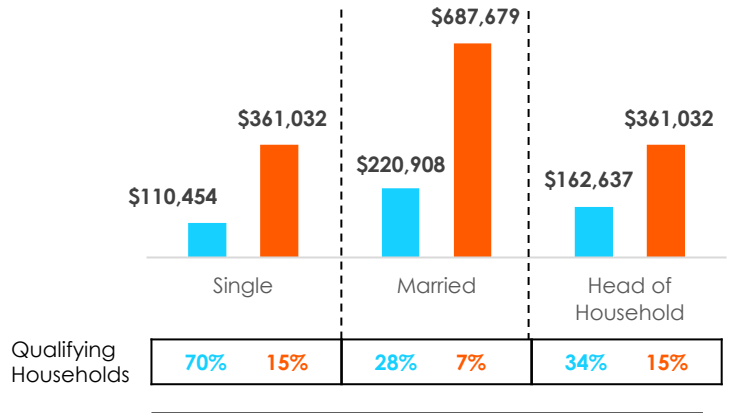
Sources: AE, Census Bureau

# Case Study: Houston

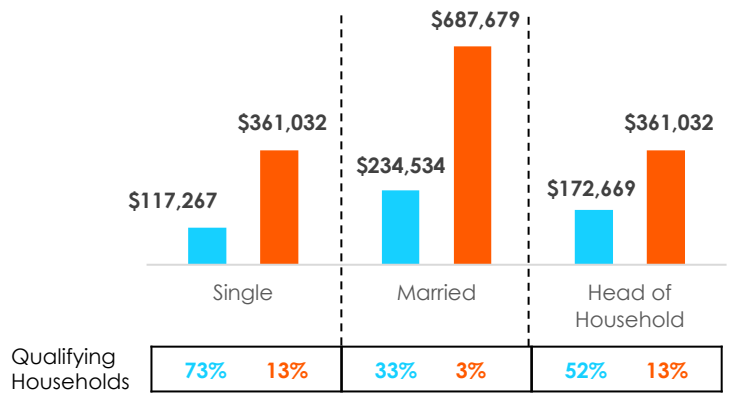


For married filers within the Houston MSA, home prices would need to be above \$687,679 in order to reach this break even threshold. Only 3% of households in Galveston and Wharton County would qualify, while 7% would qualify in Harris County. These are significant drops from 2017.

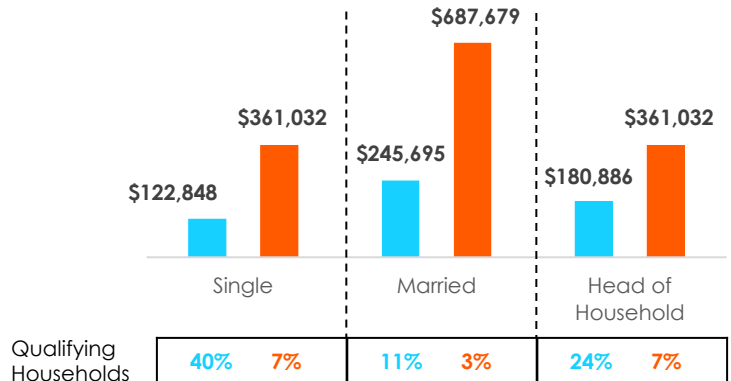
## Harris County



## Galveston County

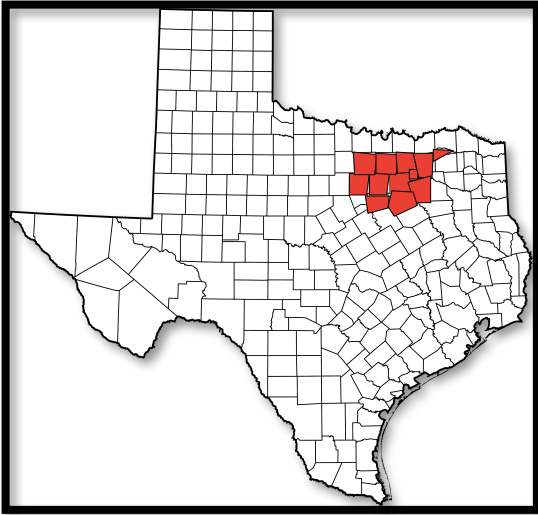


## Wharton County



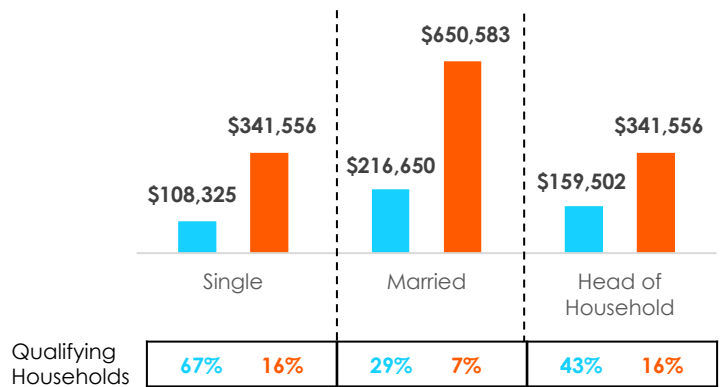
Sources: AE, Census Bureau

# Case Study: Dallas/Fort Worth

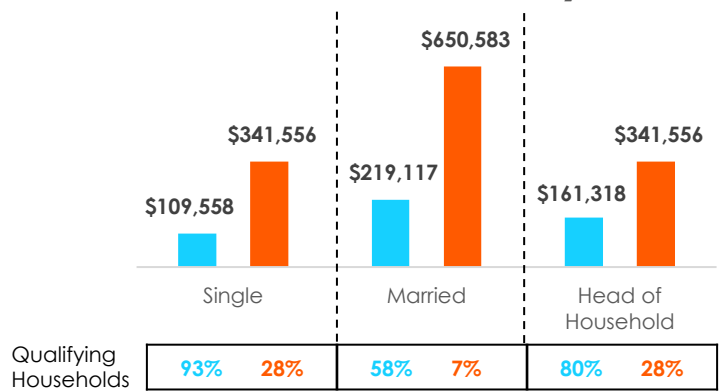


In the Dallas-Fort Worth-Arlington Metroplex, the qualifying home price for married filers would rise to \$650,583. Only 7% of households would qualify in Dallas or Collin County, while 4% would qualify in Cooke County.

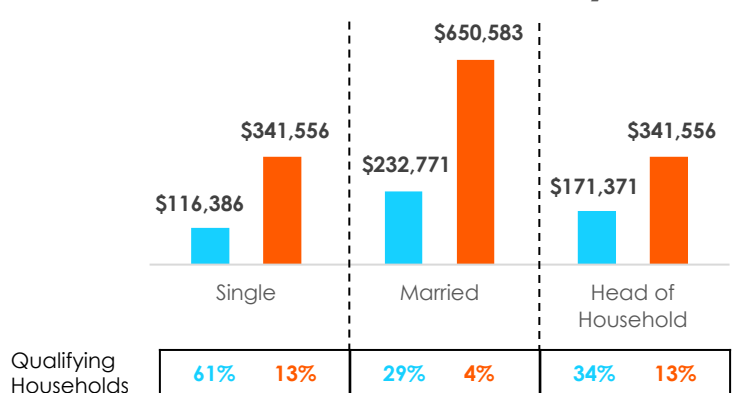
## Dallas County



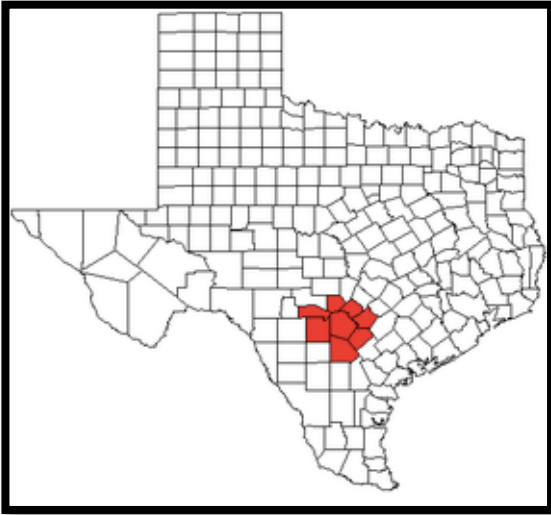
## Collin County



## Cooke County

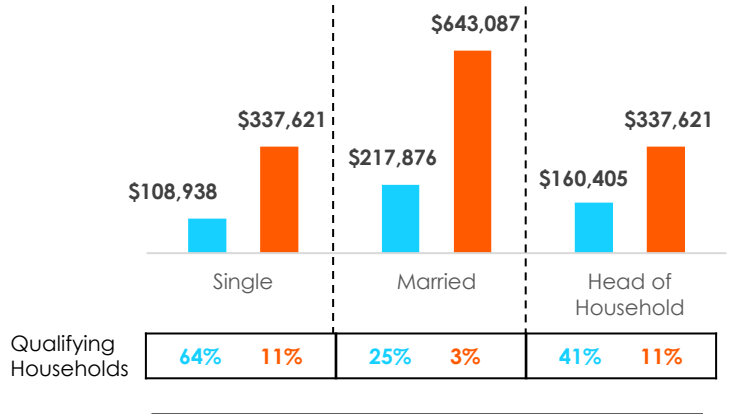


# Case Study: San Antonio

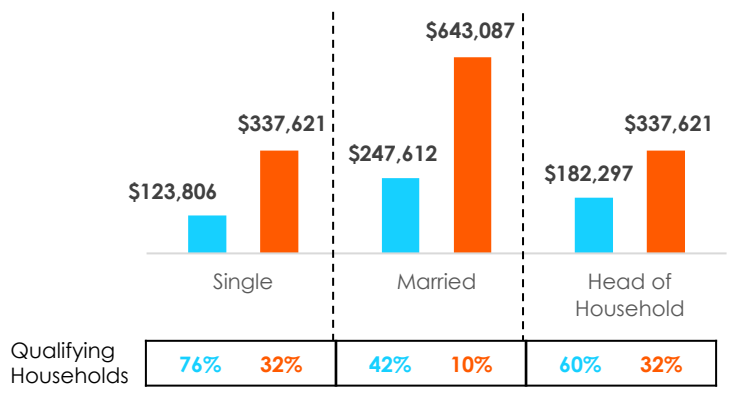


In the San Antonio MSA, the qualifying home price for married filers would increase from \$217,876 to \$643,087 under The Blueprint. In Bexar County, only 3% of households would qualify at this break even home price.

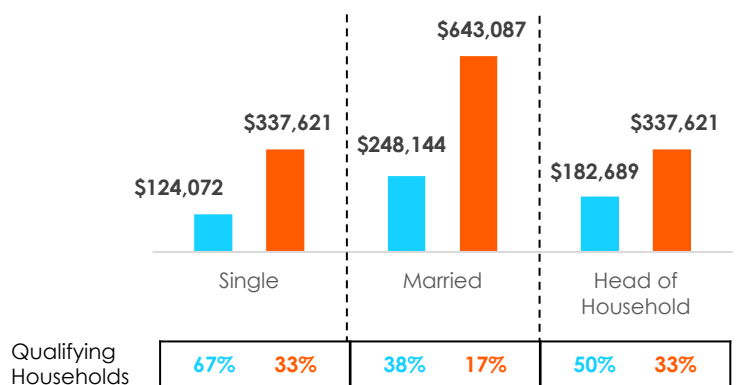
## Bexar County



## Comal County



## Blanco County



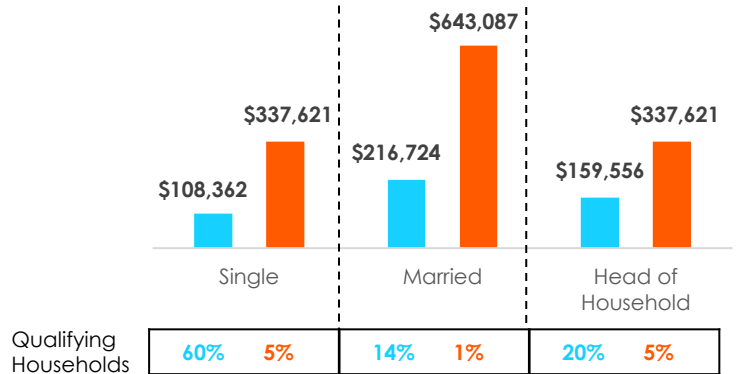
Sources: AE, Census Bureau

# Case Study: El Paso

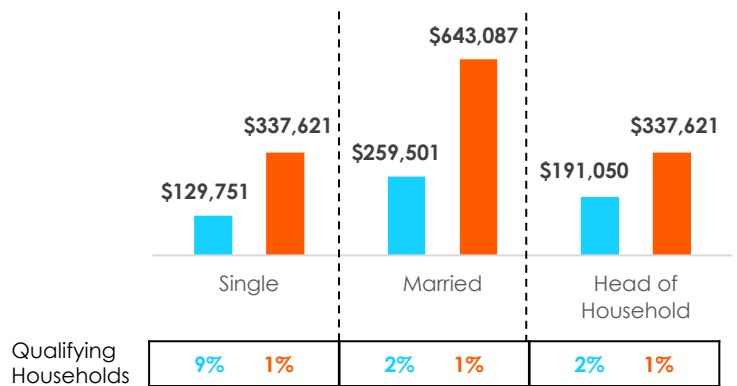


El Paso and Hudspeth County would be hit drastically by the rising break even home price under The Blueprint. In El Paso County, only 5% of households would qualify for the single threshold, while 1% would qualify for the married threshold. In Hudspeth County, only 1% of households would qualify for the break even threshold – regardless of filing status.

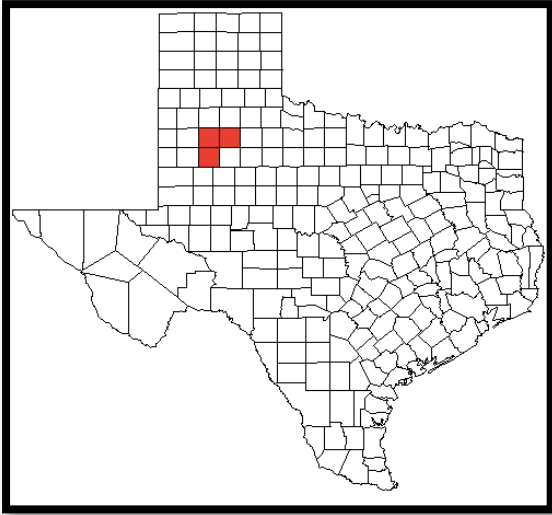
## El Paso County



## Hudspeth County

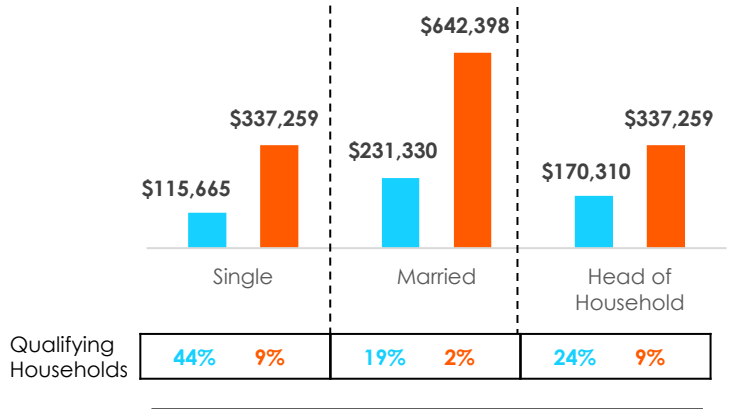


# Case Study: Lubbock

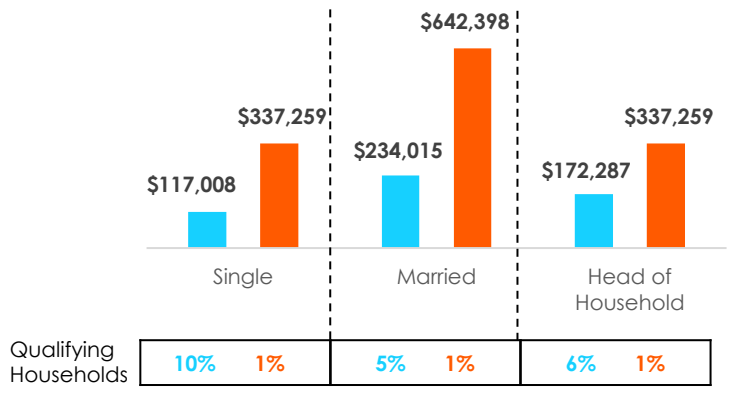


For married filers in the Lubbock MSA, just 2% of households would qualify for the break even home price threshold in Lubbock County, while 1% would qualify in Crosby and Lynn County. For these filers, the threshold would be set at \$642,398.

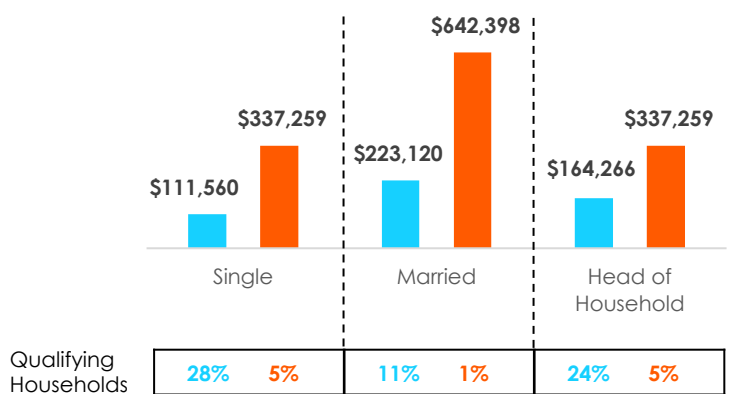
## Lubbock County



## Crosby County



## Lynn County





# Appendix



# Appendix

## **Additional Definitions**

Multipliers – are unique to the region being studied and used to calculate the specific effects brought about by a change to a regional economy. For instance, a positive economic activity will have a multiplier greater than 1, which means that the economic impacts are greater than just the direct expenditures from the analyzed activity. Simply, a multiplier is the ratio that defines the total economic output created for each dollar invested.

Jobs – are created through indirect and induced effects and represent full-time equivalents.

Labor Income – consists of all forms of employment income, including both wages and benefits.

# Appendix

## 2017 Tax Provisions

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

Personal & 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%

# Appendix

## The Blueprint's Proposed Tax Provisions

Standard Deduction	
Filing Status	Amount
Single	\$12,600
Married	\$24,000
Head of Household	<i>Repealed</i>

Personal & Dependent Exemptions
<i>Repealed</i>

### Income Tax Brackets

Single		
Lower Bound	Upper Bound	Tax Rate
\$0	\$37,500	10%
\$37,500	\$112,500	25%
\$112,500+		35%

Married		
Lower Bound	Upper Bound	Tax Rate
\$0	\$75,000	10%
\$75,000	\$225,000	25%
\$225,000+		35%

Head of Household		
Lower Bound	Upper Bound	Tax Rate
<i>This filing status would be repealed</i>		

The logo for angelou economics features the word "angelou" in a dark blue, lowercase sans-serif font, followed by "economics" in an orange, lowercase sans-serif font. To the right of the text is a graphic consisting of a large white circle partially overlapping a white rectangle, with three smaller white rectangles stacked vertically to its right.

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