



TEXAS ASSOCIATION
OF REALTORS®

Economic Analysis of the Unified Framework for Tax Reform



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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 Unified Framework”, 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 Unified Framework 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 Unified Framework.

The purpose of the analysis is to better understand the unique impact that The Unified Framework 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 Unified Framework.

The total net impact is effectively the fiscal impact. It is the direct impact that The Unified Framework 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 Unified Framework. 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 Unified Framework

The Unified Framework 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
Increase the Standard Deduction	Repeal Personal Exemptions
Repeal the Alternative Minimum Tax	
Increase the Child Tax Credit	
\$14.240 Billion	\$13.767 Billion

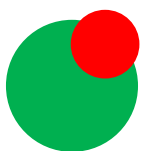
Combined, these provisions would save Texas households over \$473 million in total tax expenditures in 2018. Collections from households with adjusted gross incomes above \$200,000 would decrease by \$1.849 billion, while collections from the remaining lower income households would increase by \$1.376 billion.

Fiscal Impacts by Income		
Adjusted Gross Income	Number of Households	2018 Net Tax Impact
\$0 - \$50,000	4,292,000 (48%)	\$960.3 million
\$50,000 - \$100,000	2,626,000 (30%)	\$83.0 million
\$100,000 - \$200,000	1,548,000 (17%)	\$332.2 million
\$200,000 or more	419,000 (5%)	\$1.849 billion
Total	8,885,000 (100%)	\$473.0 million

Who Will Fund the Unified Tax Reform Framework?

Households with Income > \$200K

Top 5% of Households

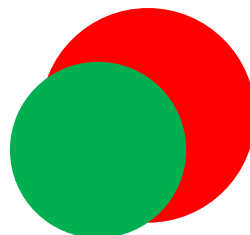


Share of Tax Hikes : **13%**

Share of Tax Relief : **26%**

Households with Income < \$50K

Bottom 48% of Households

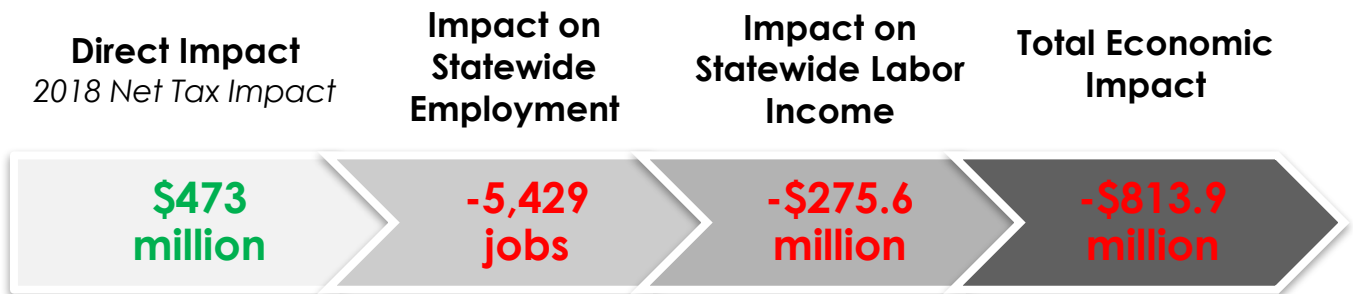


Share of Tax Hikes : **43%**

Share of Tax Relief : **35%**

Executive Summary

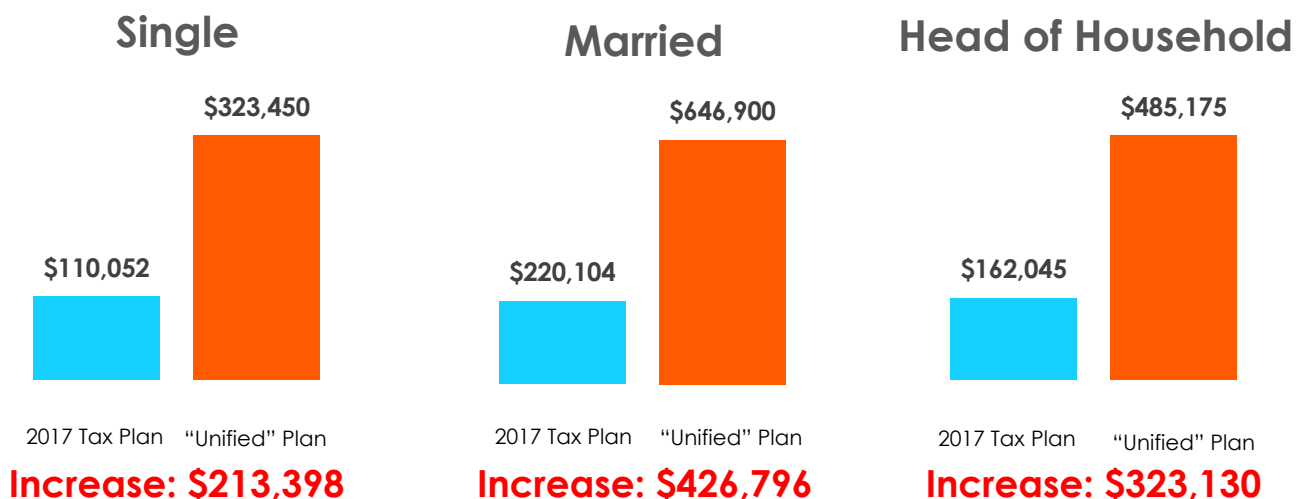
Economic Impact of 2018 Net Tax Impact



Despite providing net tax relief throughout Texas, the **Total Economic Impact of The Unified Framework will have a negative outcome on the state economy.** This is largely due to the asymmetric distribution of tax relief across income brackets. The majority of tax relief is provided 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 which has incentives built into our tax system because of targeted tax breaks. **By nearly doubling the standard deduction and eliminating the deduction for state and local taxes (including local property taxes).** The Unified Framework 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 Unified Framework** released by the Tax Reform Task Force on September 27, 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 Unified Framework seeks **to reduce the number of tax brackets, eliminate several taxes** including the **estate tax**, and **reduce the corporate tax rate.**

To broaden the tax base, The Unified Framework has proposed **eliminating all deductions other than the charitable giving and mortgage interest deduction.** Additionally, The Unified Framework 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 create incentives for 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 Unified Framework will have on individual Texans, Texas homeowners, and the broader effects to the Texas economy.



The Unified Framework

The Unified Framework

Copy of The Unified Framework



GOALS

The Trump Administration, the House Committee on Ways and Means, and the Senate Committee on Finance have developed a unified framework to achieve pro-American, fiscally-responsible tax reform. This framework will deliver a 21st century tax code that is built for growth, supports middle-class families, defends our workers, protects our jobs, and puts America first. It will deliver fiscally responsible tax reform by broadening the tax base, closing loopholes and growing the economy. It includes:

- Tax relief for middle-class families.
- The simplicity of “postcard” tax filing for the vast majority of Americans.
- Tax relief for businesses, especially small businesses.
- Ending incentives to ship jobs, capital, and tax revenue overseas.
- Broadening the tax base and providing greater fairness for all Americans by closing special interest tax breaks and loopholes.

This unified framework serves as a template for the tax-writing committees that will develop legislation through a transparent and inclusive committee process. The committees will also develop additional reforms to improve the efficiency and effectiveness of tax laws and to effectuate the goals of the framework. The Chairmen welcome and encourage bipartisan support and participation in the process.

The Unified Framework

The Relevant Pieces

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

For the sake of clarity, below are the details of the proposal that are considered in this study.

Tax Relief Provisions

Consolidate the current seven tax brackets into three brackets of 12%, 25%, and 35%
Increase the Standard Deduction
Repeal the Alternative Minimum Tax
Increase the Child Tax Credit

Tax Raising Provisions

Repeal Select Itemized Deductions
Repeal Personal Exemptions

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Fiscal Impact

Fiscal Impact

Introduction

The following section provides a fiscal analysis of The Unified Framework. To estimate the aggregate impact of this proposal, this study utilizes a study published by the Tax Policy Center (TPC) and 2015 IRS data specific to Texas.

Using conventional budget scoring methods, the TPC study estimates the federal revenue effects of The Unified Framework. Figures could then be extrapolated for the state of Texas by using IRS data specific to Texas. Therefore, the following section estimates the fiscal impact faced by Texas homeowners and taxpayers should The Unified Framework become law.

Proposed Changes to Current Tax Provisions

The Unified Framework 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 four provisions will reduce tax receipts, while the remaining two provisions will raise federal revenues.

Tax Relief Provisions

1. Consolidate income tax rates to 12%, 25%, and 35%
2. Increase the standard deduction
3. Repeal the alternative minimum tax
4. Increase the Child Tax Credit

Total Tax Relief

\$14.240 billion

Federal Revenue Raising Provisions

1. Repeal all itemized deductions except for the mortgage interest deduction and deduction for charitable contributions.
2. Repeal personal exemptions

Total New Revenue

\$13.767 billion

Fiscal Impact

Aggregate Impact of the Proposed Plan

Characteristics of Texas Taxpayers (2015 IRS)

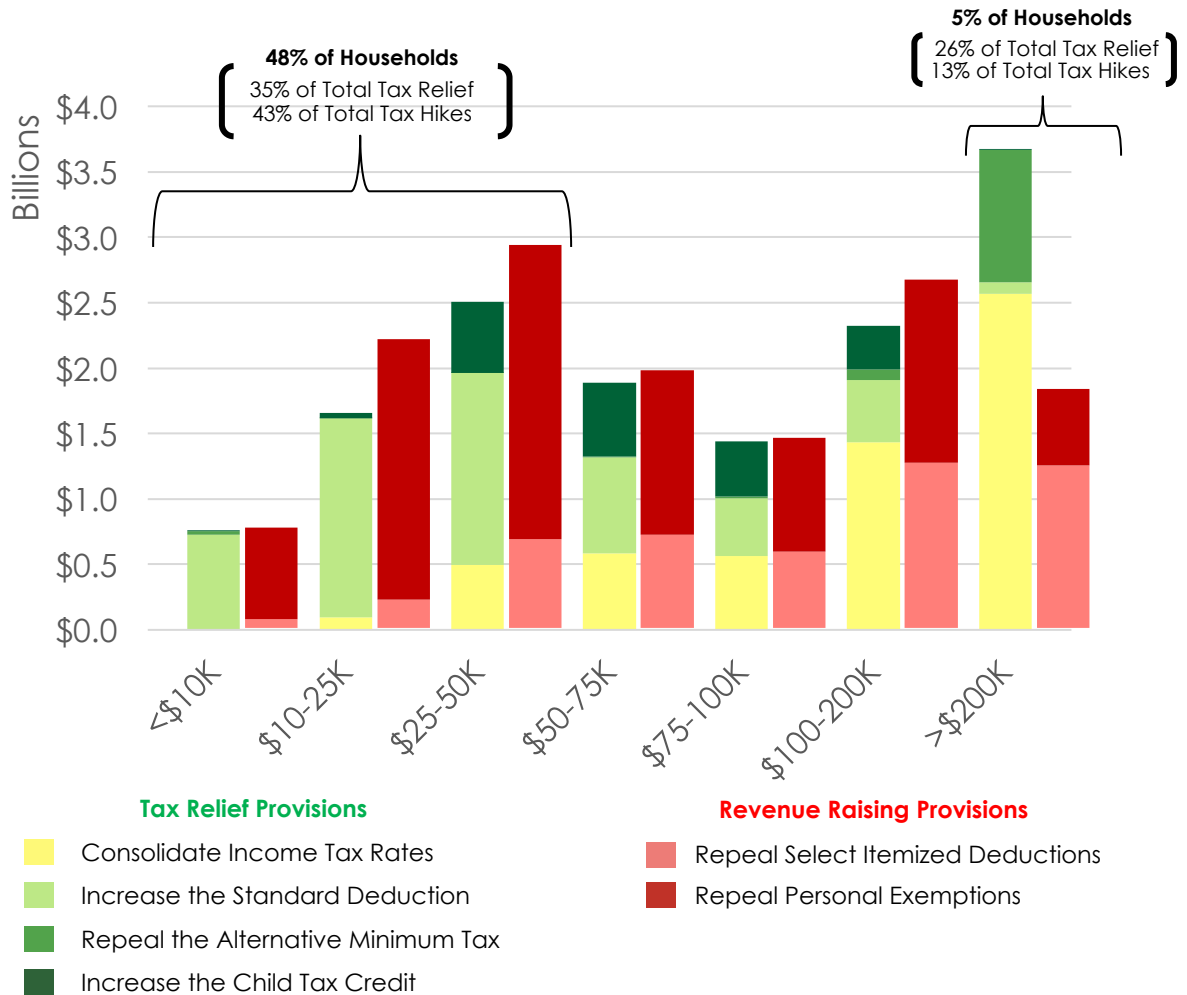
Adjusted Gross Income:	\$0 - \$50,000	\$50,000 - \$100,000	\$100,000 - \$200,000	\$200,000 or more
Number of Tax Returns:	7.7 million	2.5 million	1.4 million	558,000
Percent that Itemize:	8.5%	35.6%	59.7%	81.0%

Combined, these provisions would save Texas households over \$473 million in total tax expenditures in 2018. For those at the **top of the income distribution** – specifically those with adjusted gross incomes above \$200,000, **aggregate collections would decrease by \$1.849 billion**. For the remaining income brackets, **collections would increase for nearly every bracket**, with the exception of households with adjusted gross incomes of \$1 – \$10,000.

Adjusted Gross Income	2018 Net Tax Impact
No AGI	\$58,869,000
\$1 - \$10,000	\$45,900,000
\$10,000 - \$25,000	\$540,349,000
\$25,000 - \$50,000	\$407,007,000
\$50,000 - \$75,000	\$74,218,000
\$75,000 - \$100,000	\$8,757,000
\$100,000 - \$200,000	\$332,240,000
\$200,000 - \$500,000	\$496,320,000
\$500,000 - \$1,000,000	\$383,375,000
\$1,000,000 or more	\$968,814,000
Total	\$472,970,000

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 increase the standard deduction. This is unsurprising, given that increasing the deduction will nearly double the deductible amount for most filers. **Repealing personal exemptions would burden these taxpayers the most**, which offsets a large portion of the relief given by increasing 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.

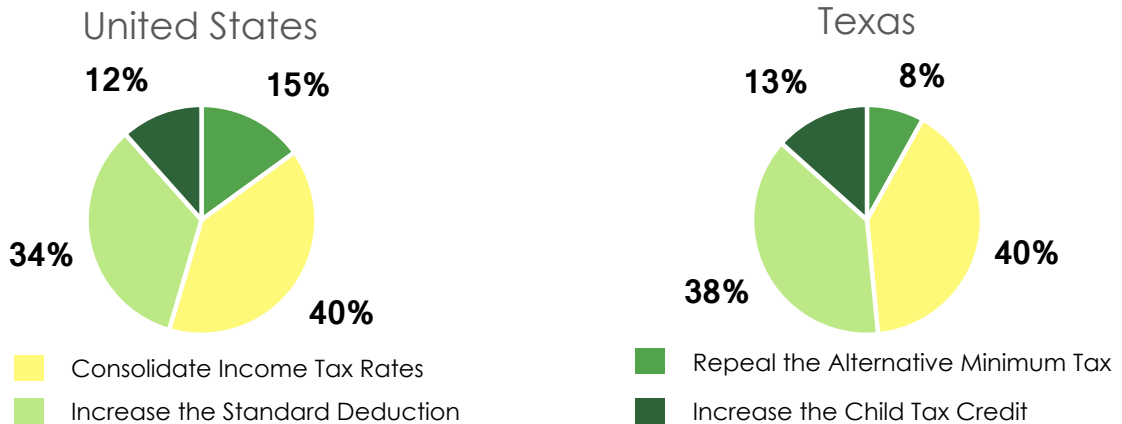
Sources: Tax Policy Center, AE, IRS

Fiscal Impact

Comparison to National Fiscal Impact

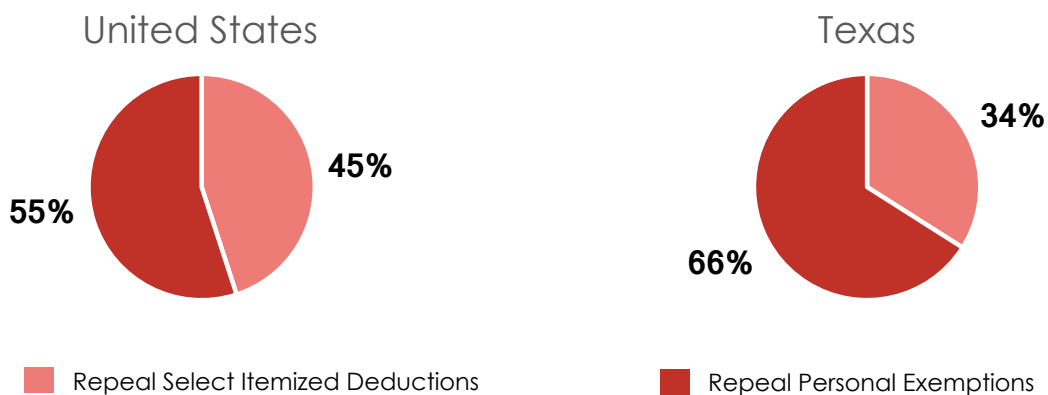
In aggregate, **The Unified Framework will impact Texas tax returns differently than it will impact the United States.** This is caused by differing demographics and characteristics of taxpayers at the state level. To illustrate this disparity, consider the varying impact of each provision at the national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

Share of Total Tax Relief Provisions



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 increasing the standard deduction and child tax credit.

Share of Total Revenue Raising Provisions



Among revenue raising provisions, Texas taxpayers would be burdened more by removing personal exemptions. 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: 12%, 15%, 25%, 28%, 33%, 35%, and 39.6%. The Unified Framework would reduce the number of tax brackets to three, and consolidate to the following rates: 12%, 25%, and 35%. An estimate of the proposed tax brackets is below:

Single Tax Filers		
Lower Bound	Upper Bound	Tax Rate
\$0	\$37,950	12%
\$37,950	\$191,650	25%
\$191,650	And over	35%

Married Tax Filers		
Lower Bound	Upper Bound	Tax Rate
\$0	\$75,900	12%
\$75,900	\$233,350	25%
\$233,350	And over	35%

In total, consolidating income tax rates would save Texas households over \$5.7 billion in 2018.

Adjusted Gross Income	2018 Tax Impact
No AGI	\$0
\$1 - \$10,000	\$2,914,000
\$10,000 - \$25,000	\$98,749,000
\$25,000 - \$50,000	\$494,318,000
\$50,000 - \$75,000	\$583,348,000
\$75,000 - \$100,000	\$564,763,000
\$100,000 - \$200,000	\$1,431,535,000
\$200,000 - \$500,000	\$1,052,247,000
\$500,000 - \$1,000,000	\$439,870,000
\$1,000,000 or more	\$1,075,638,000
Total	\$5,743,382,000

Sources: Tax Policy Center, AE

Fiscal Impact

Tax Relief Provision 2: Increase the Standard Deduction

The Unified Framework seeks to increase 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
2017	\$6,350	\$12,700	\$9,350
The Unified Framework	\$12,000	\$24,000	\$18,000

In total, increasing the standard deduction would save Texas households over \$5.4 billion in 2018.

Adjusted Gross Income	2018 Tax Impact
No AGI	\$0
\$1 - \$10,000	\$722,128,000
\$10,000 - \$25,000	\$1,516,991,000
\$25,000 - \$50,000	\$1,470,113,000
\$50,000 - \$75,000	\$736,304,000
\$75,000 - \$100,000	\$442,419,000
\$100,000 - \$200,000	\$475,043,000
\$200,000 - \$500,000	\$64,338,000
\$500,000 - \$1,000,000	\$12,414,000
\$1,000,000 or more	\$8,840,000
Total	\$5,448,590,000

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 Unified Framework 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 \$1.1 billion in 2018.

Adjusted Gross Income	2018 Tax Impact
No AGI	\$27,555,000
\$1 - \$10,000	\$198,000
\$10,000 - \$25,000	\$1,073,000
\$25,000 - \$50,000	\$1,519,000
\$50,000 - \$75,000	\$5,465,000
\$75,000 - \$100,000	\$13,672,000
\$100,000 - \$200,000	\$85,711,000
\$200,000 - \$500,000	\$572,174,000
\$500,000 - \$1,000,000	\$186,668,000
\$1,000,000 or more	\$254,106,000
Total	\$1,148,141,000

Sources: Tax Policy Center, AE

Fiscal Impact

Tax Relief Provision 4: Increase the Child Tax Credit

The Unified Framework proposes to set the child tax credit to \$1,500, which would be a \$500 increase from its current level of \$1,000. Further, the Unified Framework seeks to increase the income level at which the child tax credit begins to phase out.

In total, increasing the child tax credit would save Texas households over \$1.9 billion in 2018.

Adjusted Gross Income	2018 Tax Impact
No AGI	\$194,000
\$1 - \$10,000	\$192,000
\$10,000 - \$25,000	\$41,100,000
\$25,000 - \$50,000	\$542,402,000
\$50,000 - \$75,000	\$566,304,000
\$75,000 - \$100,000	\$418,352,000
\$100,000 - \$200,000	\$331,652,000
\$200,000 - \$500,000	\$121,000
\$500,000 - \$1,000,000	\$0
\$1,000,000 or more	\$0
Total	\$1,900,317,000

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 Unified Framework seeks to remove all itemized deductions, except for the mortgage interest 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 increasing 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 \$4.7 billion in taxes.

Adjusted Gross Income	2018 Tax Impact
No AGI	\$0
\$1 - \$10,000	-\$65,873,000
\$10,000 - \$25,000	-\$213,024,000
\$25,000 - \$50,000	-\$676,912,000
\$50,000 - \$75,000	-\$711,199,000
\$75,000 - \$100,000	-\$584,333,000
\$100,000 - \$200,000	-\$1,255,284,000
\$200,000 - \$500,000	-\$727,316,000
\$500,000 - \$1,000,000	-\$178,064,000
\$1,000,000 or more	-\$331,187,000
Total	-\$4,743,192,000

Sources: Tax Policy Center, AE

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 may have. In 2017, this amount was \$4,050 for each exemption. The Unified Framework seeks to repeal personal exemptions.

In total, repealing personal exemptions for taxpayers and dependents would cost Texans an additional \$9.0 billion in taxes.

Adjusted Gross Income	2018 Tax Impact
No AGI	-\$86,618,000
\$1 - \$10,000	-\$613,660,000
\$10,000 - \$25,000	-\$1,985,237,000
\$25,000 - \$50,000	-\$2,238,447,000
\$50,000 - \$75,000	-\$1,254,439,000
\$75,000 - \$100,000	-\$863,631,000
\$100,000 - \$200,000	-\$1,400,897,000
\$200,000 - \$500,000	-\$465,244,000
\$500,000 - \$1,000,000	-\$77,513,000
\$1,000,000 or more	-\$38,582,000
Total	-\$9,024,268,000

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 Unified Framework, the number of tax brackets would be reduced to three rates: 12%, 25%, and 35%.

Tax Relief Provision 2: Increase the Standard Deduction

The tax reform framework seeks to nearly 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 Unified Framework seeks to eliminate this provision.

Tax Relief Provision 4: Increase the Child Tax Credit

The child tax credit provides tax relief to offset the costs of raising children.

Revenue Raising Provision 1: Repeal Select Itemized Deductions

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

Revenue Raising Provision 2: Repeal Personal Exemptions

The Unified Framework calls to repeal personal and dependent exemptions. This provision is offset by increasing the standard deduction.

Net Impacts by Provision

Provision	Net Tax Impact
Tax Relief Provision 1: Consolidate Income Tax Rates	\$5.743 billion
Tax Relief Provision 2: Increase the Standard Deduction	\$5.449 billion
Tax Relief Provision 3: Repeal the Alternative Minimum Tax	\$1.148 billion
Tax Relief Provision 4: Increase the Child Tax Credit	\$1.900 billion
Revenue Raising Provision 1: Repeal Select Itemized Deductions	-\$4.743 billion
Revenue Raising Provision 2: Repeal Personal Exemptions	-\$9.024 billion
Net Tax Impact	\$473.0 million

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, **most 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.**

Fiscal Impact of The Unified Framework	
Adjusted Gross Income	2018 Net Tax Impact
\$0 - \$50,000	\$960.3 million
\$50,000 - \$100,000	\$83.0 million
\$100,000 - \$200,000	\$332.2 million
\$200,000 or more	\$1.849 billion
Total	\$473.0 million

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 Unified Framework 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.

Sources: AE, IMPLAN

Economic Impact

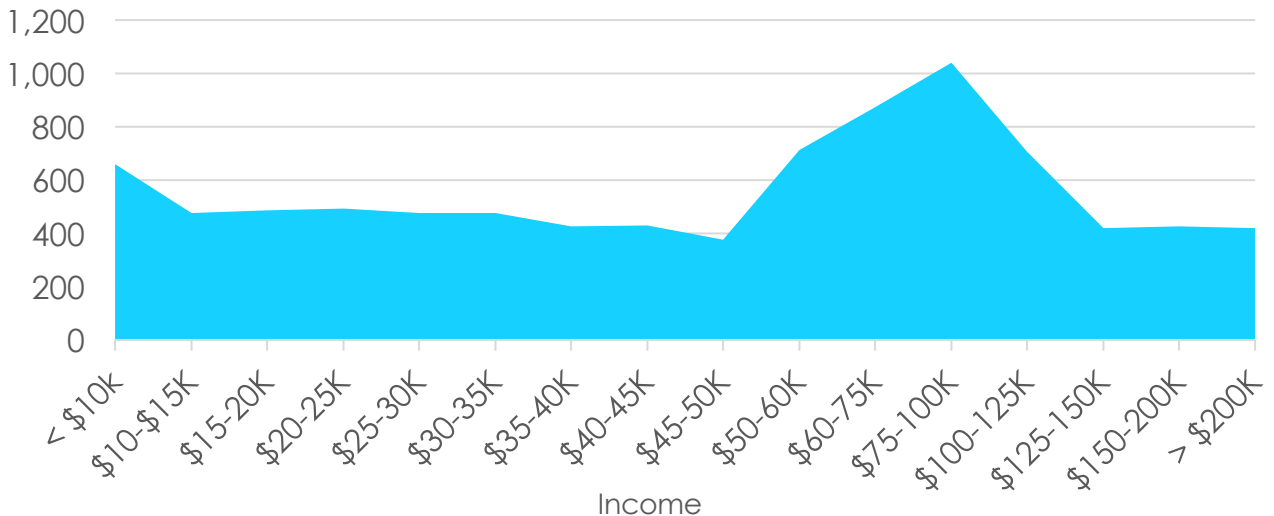
Total Economic Impact

Adjusted Gross Income	Employment	Labor Income	Total Output
Below \$200,000	-12,740	-\$615.0 million	-\$1.850 billion
Above \$200,000	7,311	\$339.4 million	\$1.036 billion
Total	-5,429	-\$275.6 million	-\$813.9 million

Despite providing net tax relief throughout the state of Texas, the total economic impact of The Unified Framework 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 Unified Framework, 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 Unified Framework.



Healthcare: **-\$97.4 million**



Real Estate: **-\$92.4 million**



Banking & Finance: **-\$65.8 million**



Retail: **-\$64.9 million**



Telecommunications: **-\$41.8 million**



Wholesale Trade: **-\$40.9 million**



Insurance: **-\$34.0 million**



Food & Beverage: **-\$31.6 million**



Pharmaceuticals: **-\$12.1 million**



Automotive Maintenance: **-\$10.7 million**

Sources: AE, IMPLAN



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 Unified Framework, 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 Unified Framework 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 Unified Framework places upward pressure on the break even home price in two ways:

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

Increasing 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.

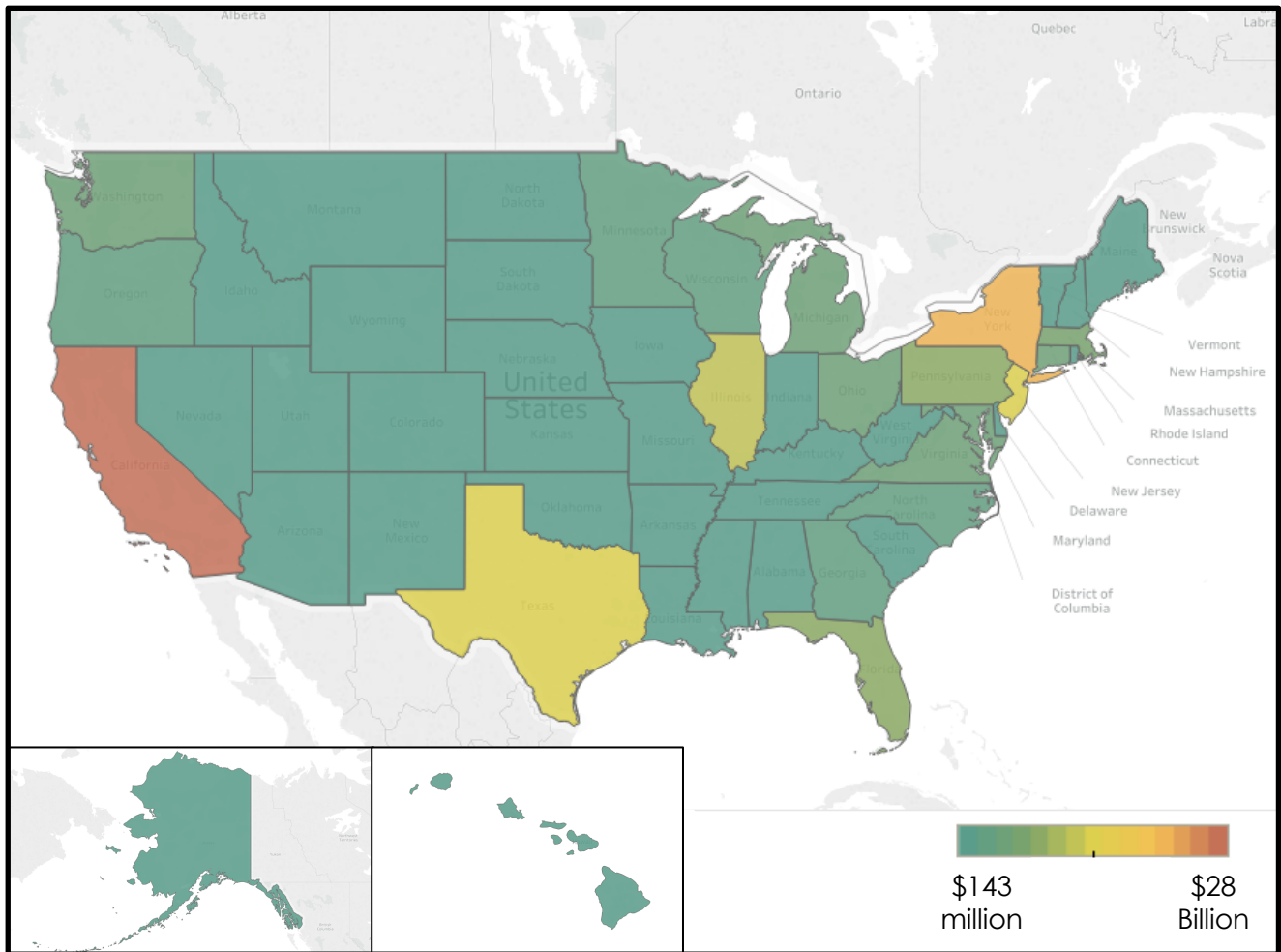
Together, these provisions will price individuals and households out of the benefits associated with purchasing a home.

Break Even Home Price

Repealing the Deduction for State & Local Property Taxes

Repealing the deduction for State & Local Property taxes will disproportionately burden Texas homeowners compared to homeowners in other states. **Across all states, Texas homeowners face the 3rd highest property tax rates at an effective rate of 2.06%.** As a result, Texas homeowners deducted \$14.8 billion of State & Local property taxes in 2015, which was the 4th most of any state. **Removing this deduction will burden high property tax states more than states with lower rates.**

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

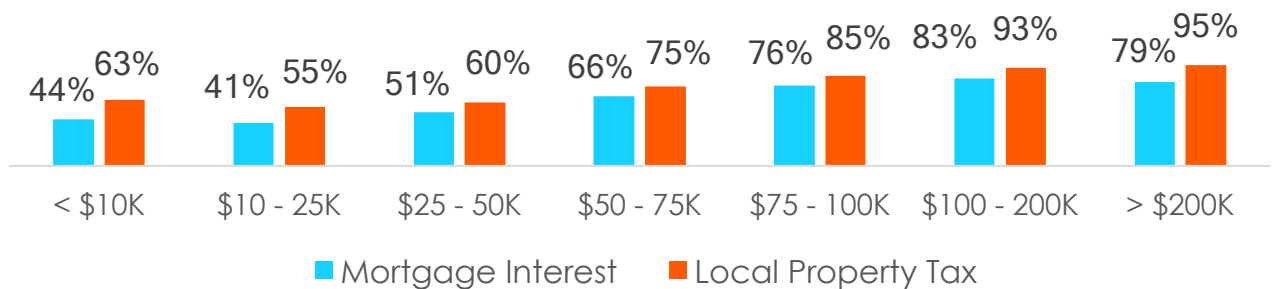


Break Even Home Price

In Texas, about **24% of filers elect to itemize their deductions**. In turn, this **exempts 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.

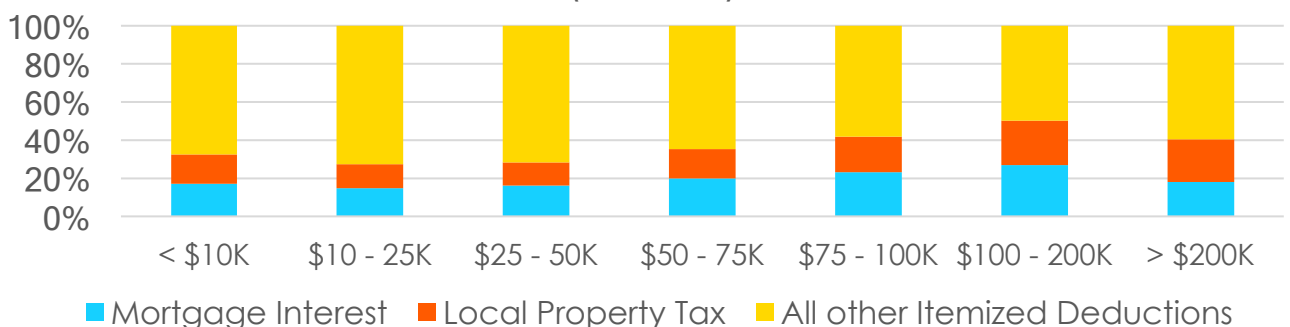
Across all itemized deductions, **nearly 70% utilize the mortgage interest deduction, while 81% take the local property tax deduction**. Across all income brackets, more filers elect to take the local property tax deduction over the mortgage interest deduction. **Eliminating the deduction for local property taxes would impact over 2.3 million filers in Texas.**

Mortgage Interest & Local Property Tax Deductions
Among Filers that Itemize Deductions
(2015 IRS)



By dollar volume, **30% of itemized deductions are for property taxes while 21% are for mortgage interest deductions**. The property tax deduction is utilized most by households with adjusted gross incomes over \$75,000 – accounting for 22% of the total dollar volume of deductions. **Eliminating the deduction for local property taxes would subject an additional \$14.8 billion in aggregate incomes to taxes.**

Dollar Volume of Itemized Deductions
(2015 IRS)



Sources: AE, 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	2.06%
Interest Rate	3.71%

Break even home prices were determined using actual 2017 IRS standard deductions and proposed standard deductions amounts included in The Unified Framework.

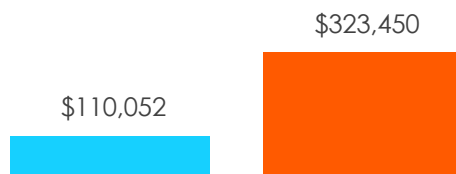
Standard Deduction Amounts		
	2017 IRS	Unified Framework
Single	\$6,350	\$12,000
Married	\$12,700	\$24,000
Head of Household	\$9,350	\$18,000

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 Unified Framework 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 homeowners. The Unified Framework will price buyers out of the market, and limit home buying activity throughout the state.

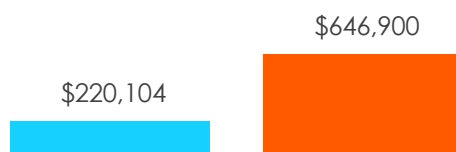
Break Even Home Price by Filing Status

Single



Increase: \$213,398

Married



Increase: \$426,796

Head of Household



Increase: \$323,130

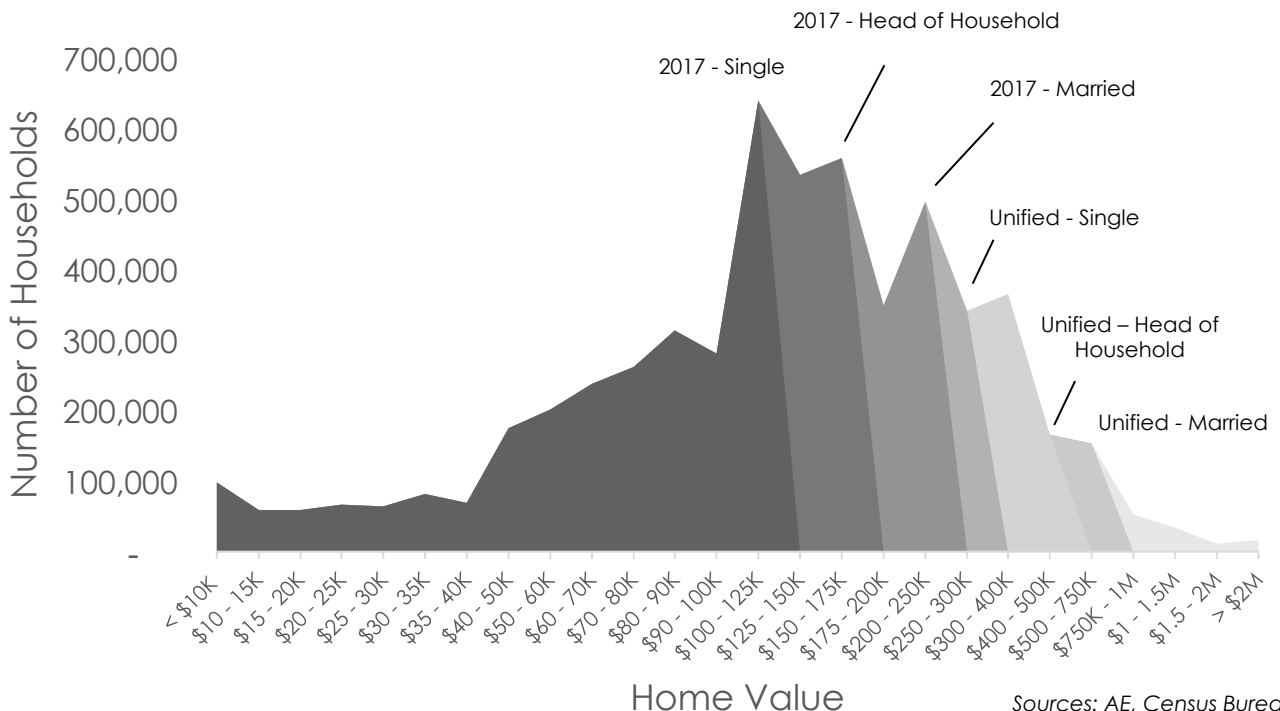
Break Even Home Price

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 **\$226,381**. Roughly **20% of homes in Texas** have values greater than or equal to this **break even level**. Under The Unified Framework, the **break even home price** for married filers **jumps to \$631,579** – a level in which **roughly 2% of homes** would qualify. The Unified Framework 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 Unified Framework
Single	54%	14%
Married	20%	2%
Head of Household	35%	5%

Texas Households Whose Home Value Meets Each Break Even Home Price

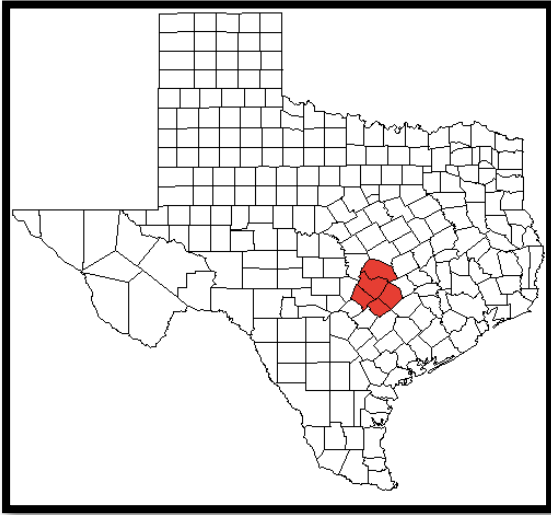


Sources: AE, Census Bureau



Case Studies

Case Study: Austin

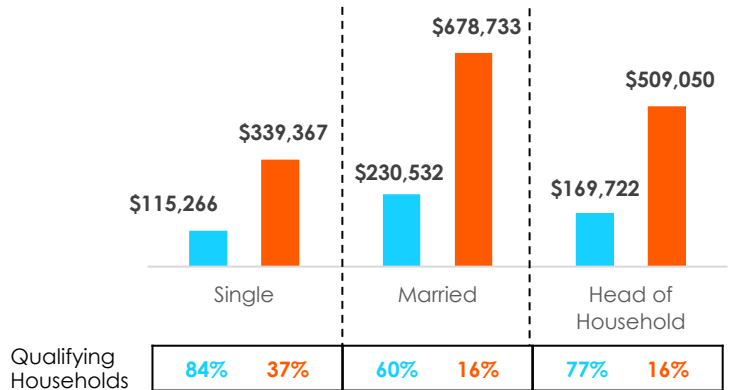


Travis County has one of the highest median home values of any county in the state of Texas. Despite this, the percent of qualifying households for the home ownership incentive would be reduced drastically under The Unified Framework, regardless of filing status.

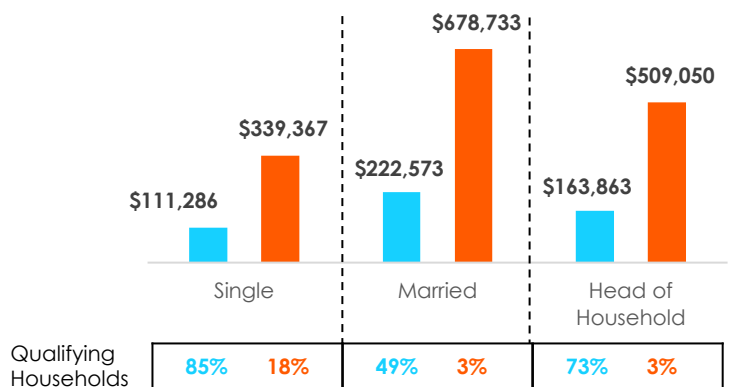
For Williamson County, only 3% of current households would qualify for the tax incentives given under the married filing status. This is the lowest qualifying percentage of any filing status across these three counties.

Sources: AE, Census Bureau

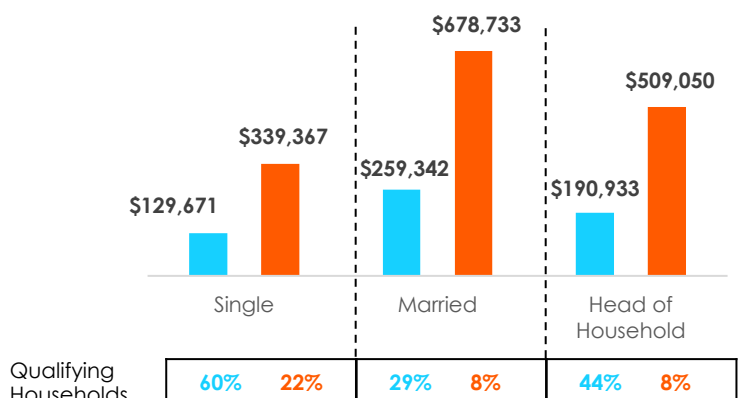
Travis County



Williamson County



Burnet County

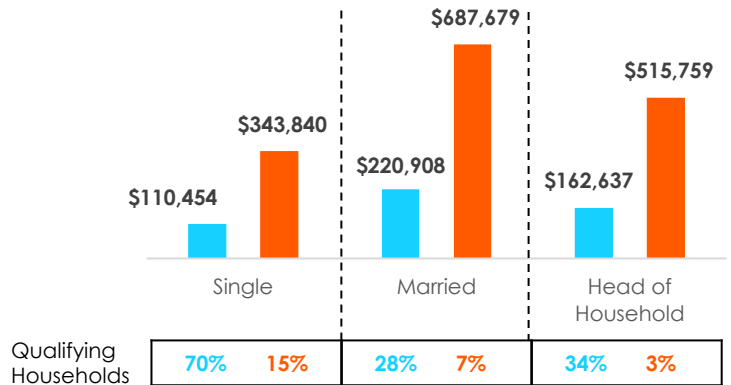


Case Study: Houston

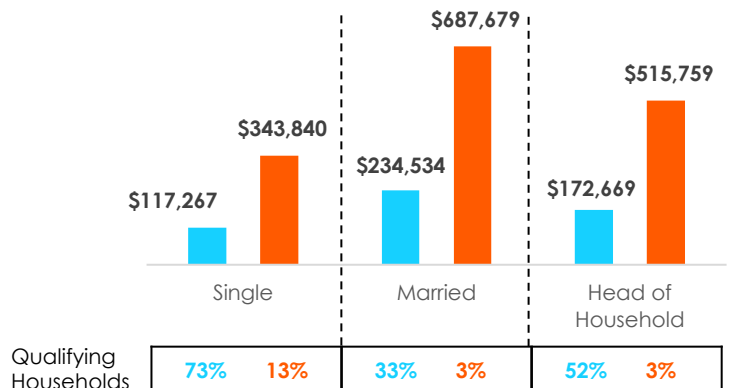


For married filers within the Houston MSA, home prices would need to be above \$687,679 in order to reach this break even threshold. Only 3% of households in Galveston and Wharton County would qualify, while 7% would qualify in Harris County. These are significant drops from 2017 levels.

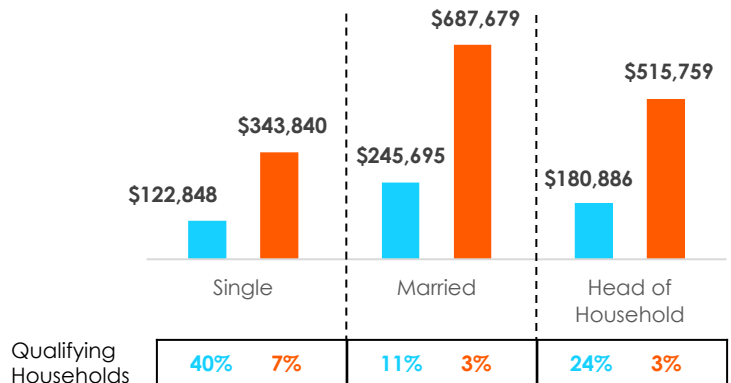
Harris County



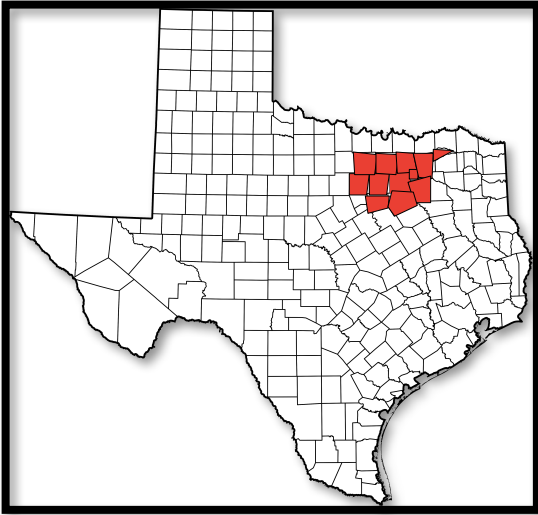
Galveston County



Wharton County

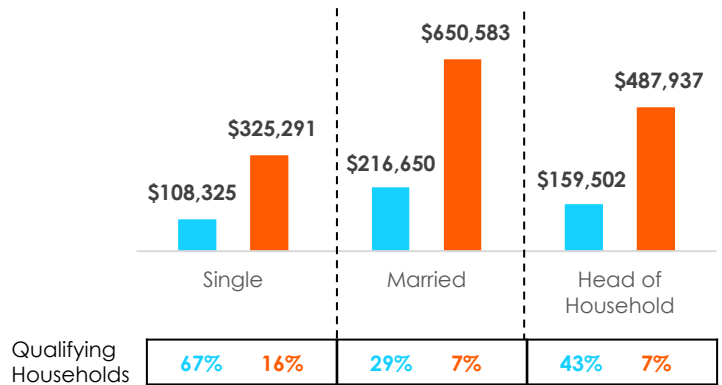


Case Study: Dallas/Fort Worth

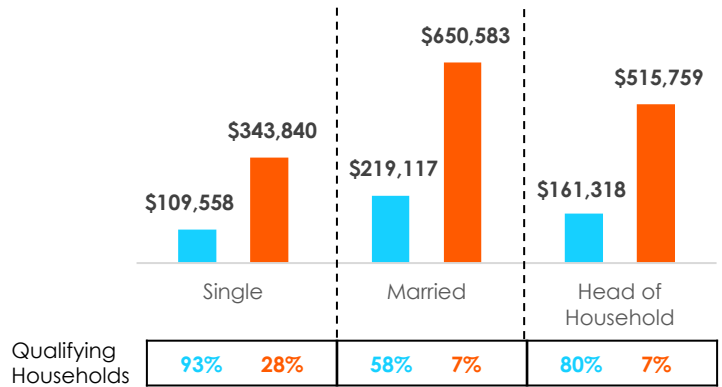


In the Dallas-Fort Worth-Arlington Metroplex, the qualifying home price for married filers would rise to \$650,583. Only 7% of households would qualify in Dallas or Collin County, while 4% would qualify in Cooke County.

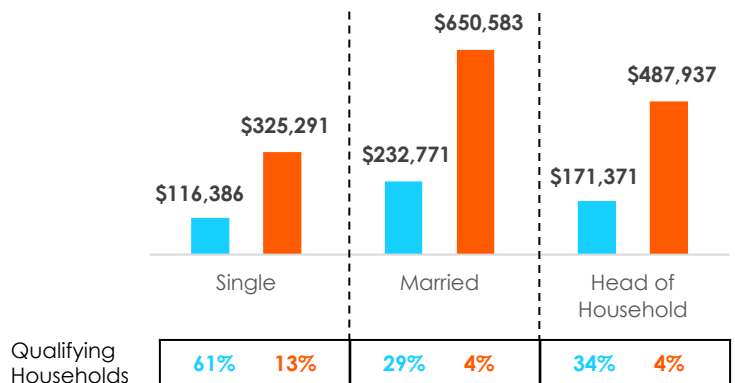
Dallas County



Collin County



Cooke County



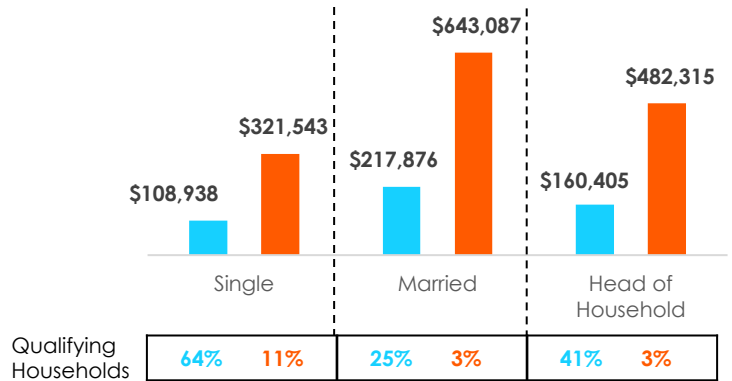
Sources: AE, Census Bureau

Case Study: San Antonio

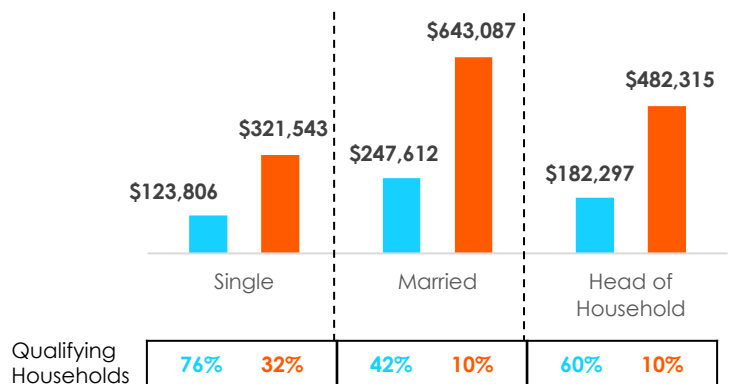


In the San Antonio MSA, the qualifying home price for married filers would increase from \$217,876 to \$643,087 under The Unified Framework. In Bexar County, only 3% of households would qualify at this break even home price.

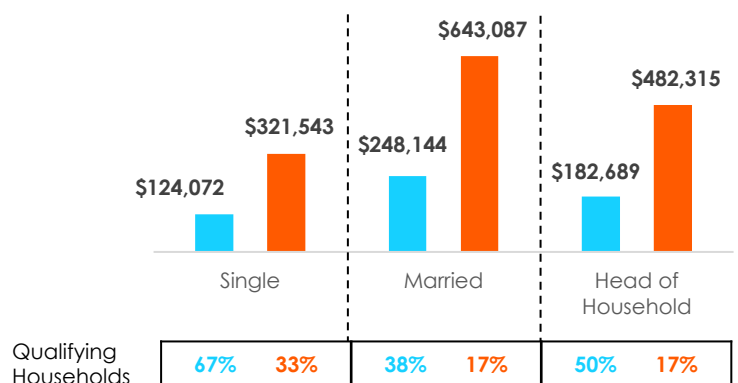
Bexar County



Comal County



Blanco County

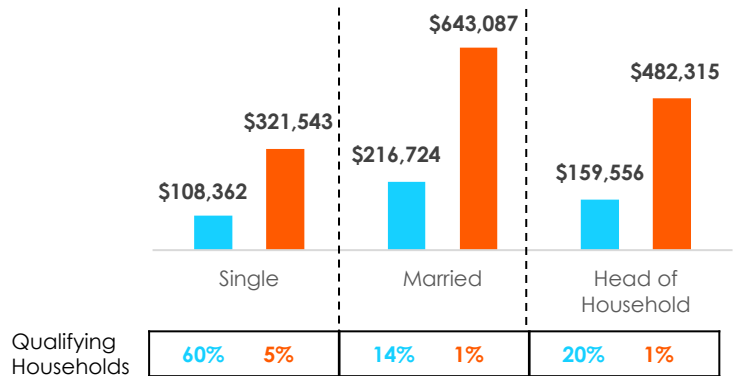


Case Study: El Paso

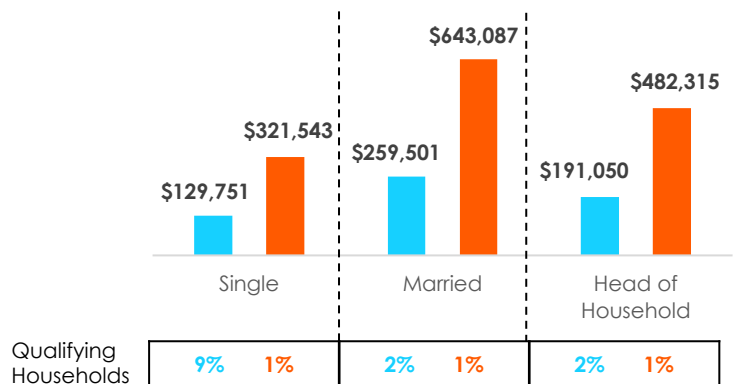


El Paso and Hudspeth County would be hit drastically by the rising break even home price under The Unified Framework. In El Paso County, only 5% of households would qualify for the single threshold, while 1% would qualify for the married and head of household threshold. In Hudspeth County, only 1% of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

El Paso County

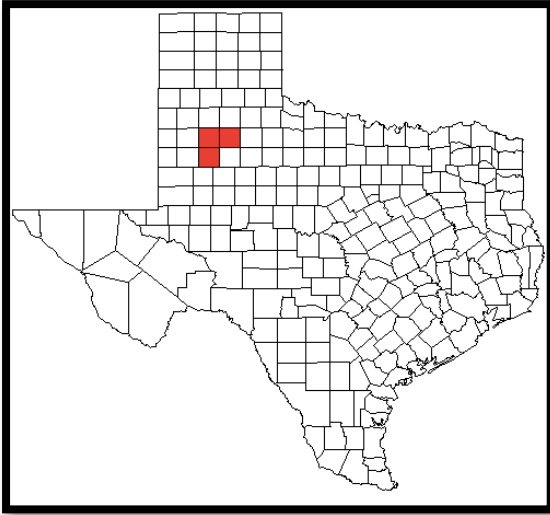


Hudspeth County



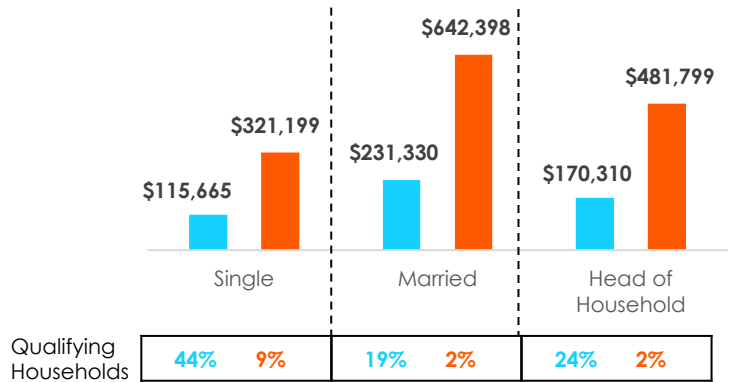
Sources: AE, Census Bureau

Case Study: Lubbock

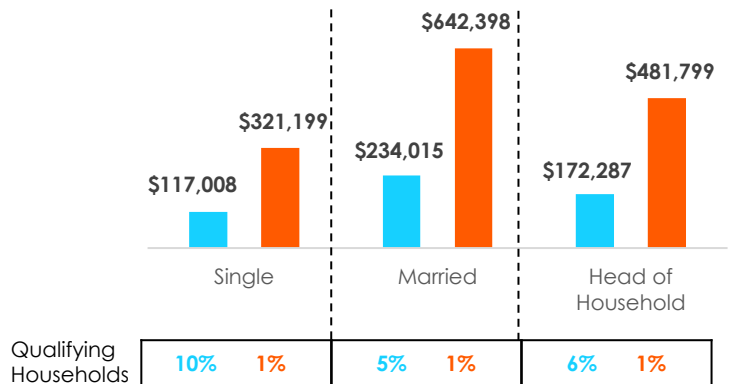


For married filers in the Lubbock MSA, just 2% of households would qualify for the break even home price threshold in Lubbock County, while 1% would qualify in Crosby and Lynn County. For these filers, the threshold would be set at \$642,398.

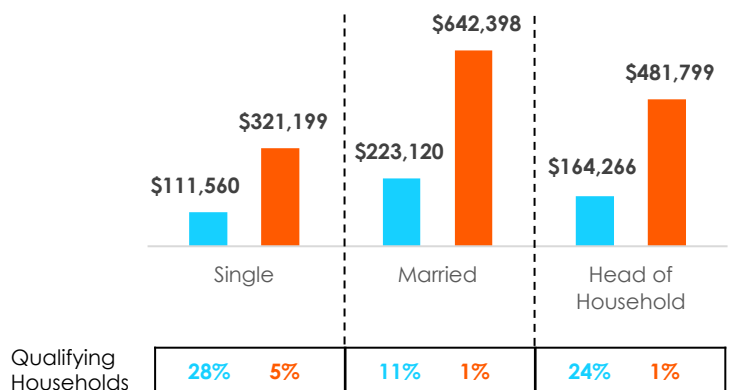
Lubbock County



Crosby County



Lynn County



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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

<i>Filing Status</i>	<i>Amount</i>
Single	\$6,350
Married	\$12,700
Head of Household	\$9,350

Personal & Dependent Exemptions

\$4,050

Income Tax Brackets

Single

<i>Lower Bound</i>	<i>Upper Bound</i>	<i>Tax Rate</i>
\$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

<i>Lower Bound</i>	<i>Upper Bound</i>	<i>Tax Rate</i>
\$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

<i>Lower Bound</i>	<i>Upper Bound</i>	<i>Tax Rate</i>
\$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 Unified Framework's Proposed Tax Provisions

Standard Deduction	
<i>Filing Status</i>	<i>Amount</i>
Single	\$12,000
Married	\$24,000
Head of Household	\$18,000

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

Income Tax Brackets

Single		
<i>Lower Bound</i>	<i>Upper Bound</i>	<i>Tax Rate</i>
\$0	\$37,950	12%
\$37,950	\$191,650	25%
\$191,650+		35%

Married		
<i>Lower Bound</i>	<i>Upper Bound</i>	<i>Tax Rate</i>
\$0	\$75,900	12%
\$75,900	\$233,350	25%
\$233,350+		35%

Head of Household		
<i>Lower Bound</i>	<i>Upper Bound</i>	<i>Tax Rate</i>
\$0	\$50,800	12%
\$50,800	\$212,500	25%
\$212,500+		35%

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