



Assessing the Impact of Tax Reform on Illustrative New Jersey Homeowners

Prepared for

New Jersey REALTORS[®] Issues Mobilization Fund

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INTRODUCTION

On December 22, 2017, President Trump signed into law H.R. 1, commonly known as the Tax Cuts and Jobs Act (“TCJA”), including significant changes to the federal tax code. The new law includes changes to marginal tax rates and the tax base, including a limitation on the amount of state and local income and property taxes that can be deducted. The new law also makes changes to the mortgage interest deduction.

PwC was engaged by the New Jersey REALTORS® Issues Mobilization Fund to quantify the impact of the new law on illustrative New Jersey homeowners in terms of the federal income taxes they would pay under prior law and under TCJA, assuming no changes in the homeowners' pretax income. Results are presented for tax years 2018 and 2023.

To perform this analysis, PwC developed a set of income and housing characteristics for eight illustrative New Jersey households using data from the American Community Survey (conducted by the US Census Bureau), the IRS' Statistics of Income Division, and the New Jersey Department of Taxation (see Appendix for detail on the derivation of the illustrative households).

For each household, a federal and state income tax calculator was used to determine federal and state taxes due under prior law and under the new law. Calculations assume that homeowners do not change their behavior, such as by reallocating savings to pay down mortgage debt, in response to the tax reform. The analysis also assumes no changes to mortgage interest rates or housing values, and no change in state income and real property taxes.

KEY PROVISIONS

Key provisions of the Tax Cuts and Jobs Act modeled include:

1. Reduction in individual income tax rates and modifications to the tax brackets. In particular, the new law provides seven tax brackets with rates of 10%, 12%, 22%, 24%, 32%, 35%, and 37%. The 37% bracket would begin at taxable income of \$600,000 for married taxpayers filing joint returns and \$500,000 for heads of household and single taxpayers (see Exhibit A in the Appendix for a full comparison of the tax brackets). The brackets would be indexed for inflation using the chained CPI-U.¹
2. Increase in the standard deduction for 2018 to \$24,000 for married taxpayers filing a joint return, \$18,000 for head-of-household filers, and \$12,000 for all other taxpayers. TCJA maintains the additional standard deduction for the aged and blind at prior law amounts.
3. Repeal of the personal exemption.
4. Repeal of the phaseout of itemized deductions and changes to deductions including:
 - Limitation of the deduction for state and local taxes, including income and property taxes, to \$10,000.
 - Modification of the deduction for mortgage interest to disallow the deduction for mortgage interest on a second home and interest on home equity loans not used on home repair or improvement. Furthermore, taxpayers may treat no more than \$750,000 as principal residence acquisition indebtedness (\$375,000 in the case of married taxpayers filing separately) for residences purchased after December 15, 2017 (unless acquired subject to a binding contract entered into prior to December 15, 2017).
5. Increase in the child credit to \$2,000 and modification of the phase-out and refundable portion of the credit. The new law also creates a new \$500 tax credit for each non-child dependent.
6. Increase in exemption and exemption phaseout thresholds for the individual alternative minimum tax (AMT).

Most individual income tax changes under the new law are scheduled to expire after December 31, 2025.

¹ In addition to the income tax brackets, the standard deduction, capital gains tax rate thresholds, and the limitation on the refundable portion of the child and family tax credit will be indexed for inflation using the chained CPI-U. Under prior law, these values, along with the personal exemption and phase-out amounts, the threshold for the overall limitation on itemized deductions, and various AMT parameters were all indexed using the standard (unchained) CPI-U. Based on information published by the Congressional Budget Office, inflation under the chained CPI-U is approximated as inflation under the standard CPI reduced by 0.25 percentage points each year.

SUMMARY OF RESULTS

Figure 1, on the next page, summarizes the impacts of the Tax Cuts and Jobs Act on eight illustrative New Jersey homeowners, in terms of the change in federal income taxes in tax years 2018 and 2023.

2018 Results

In 2018, seven of the eight households receive a tax reduction under TCJA. For these households, lower tax rates and higher credits are sufficient to offset the loss of itemized deductions and personal exemptions. Only one of the eight households experiences a tax increase under the new law. This household (Household 1), a single filer with no children, will lose a portion of its itemized deductions and personal exemptions, and will not benefit from the increased child tax credit.

2023 Results

Separate calculations are undertaken for 2023. Income and deductions for each household are projected to 2023 by growing all income items and charitable giving by the Congressional Budget Office's latest projection of the percentage increase in GDP, other than social security and annuity income which were projected using CBO's forecast of inflation. Households are assumed to continue paying down their existing mortgages (i.e., no refinancing) and housing values are assumed to rise with inflation. State and local income tax systems and property tax systems are assumed to be unchanged from current law.

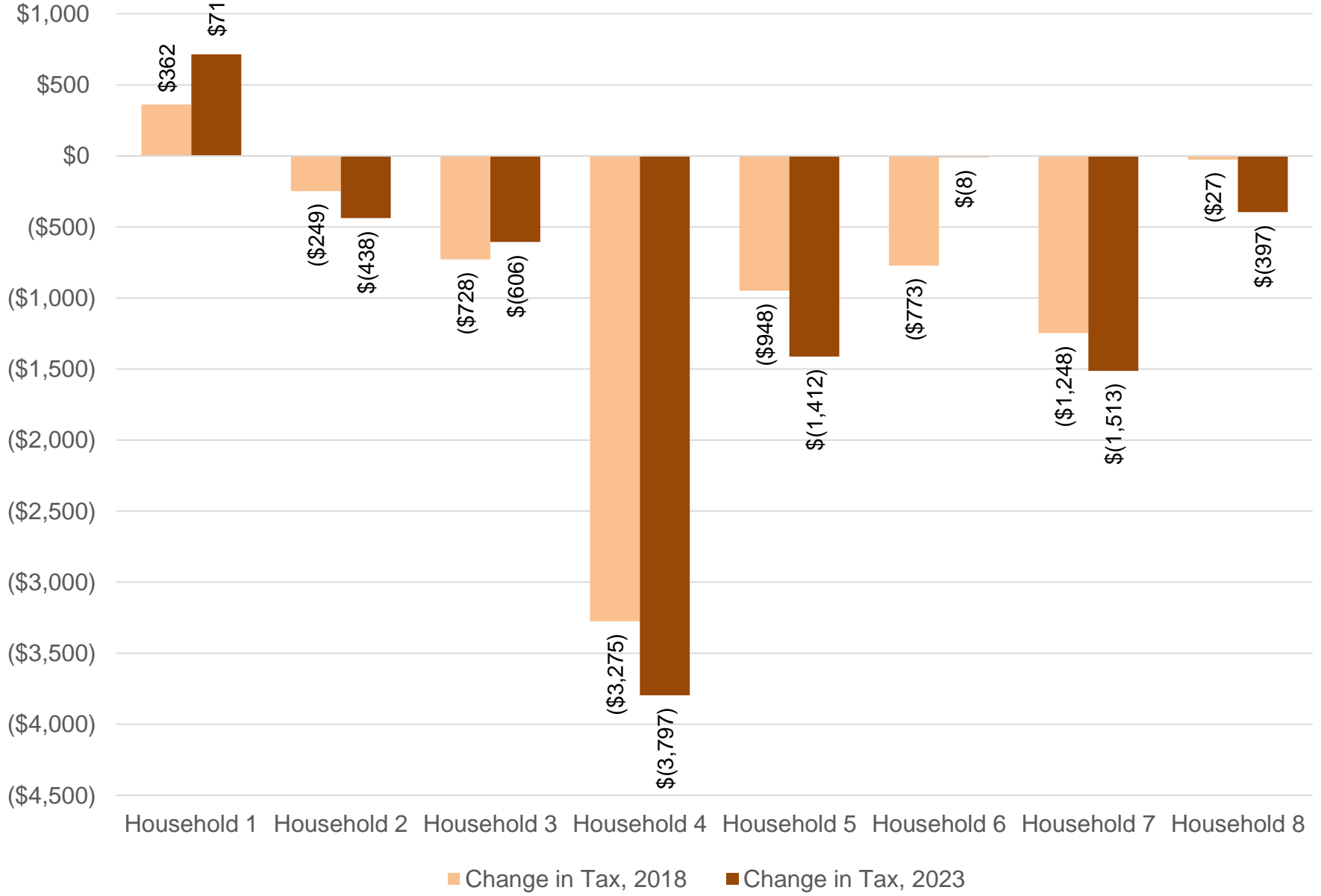
Tax brackets under TCJA are indexed for inflation by a reduced amount (chained CPI-U) compared to prior law (standard CPI-U).

In 2023, seven out of the eight households would experience a tax decrease under TCJA. As in 2018, Household 1 (a single filer with no children) would pay higher taxes as it would lose a portion of its itemized deductions and personal exemption, and would not benefit from the increased child tax credit.

Additional Detail

Detail on household characteristics and the results for 2018 and 2023 follow in Tables 1 through 3 and Figures 2 and 3. Additional discussion of the assumptions used for the households is provided in the Appendix.

Figure 1 - Change in Federal Income Tax Liability in 2018 and 2023



**Table 1. -- Illustrative New Jersey Homeowners
Demographics, Filing Status, and Mortgage Characteristics**

Item	Household 1	Household 2	Household 3	Household 4	Household 5	Household 6	Household 7	Household 8
Federal filing status	Single	Married	Single	Married	Married	Married	Head of Household	Married
Age	43	45	40	47	58	48	35	70
Spouse's age (if filing as Married)	n.a.	41	n.a.	43	56	44	n.a.	68
Number of children under 17	0	2	0	2	0	2	2	0
Year in which primary residence was purchased	2002	2018	2018	2000	1990	2018	2007	2005
County of residence	Bergen County	Monmouth County	Burlington County	Somerset County	Passaic County	Cape May County	Middlesex County	Sussex County
2018 Mortgage Statistics								
Years left on mortgage	15	30	30	15	15	30	20	18
Mortgage Rate	6.0%	4.0%	4.0%	6.0%	6.0%	4.0%	5.0%	5.0%
Home Value, Current Year	\$ 516,630	\$ 570,104	\$ 264,260	\$ 410,319	\$ 342,384	\$ 640,862	\$ 312,280	\$ 293,621
Assessment Ratio (percent)	88.96	95.56	93.54	93.79	72.33	95.89	56.54	96.76
Assessed Value	\$ 459,594	\$ 544,792	\$ 247,189	\$ 384,838	\$ 247,646	\$ 614,522	\$ 176,563	\$ 284,108
Property Tax Rate (percent)	2.515	2.039	2.882	2.416	4.165	1.223	5.351	3.057
Property Taxes	\$ 11,559	\$ 11,108	\$ 7,124	\$ 9,298	\$ 10,314	\$ 7,516	\$ 9,448	\$ 8,685
Remaining mortgage amount	\$ 196,793	\$ 456,084	\$ 211,408	\$ 128,588	\$ 93,884	\$ 512,689	\$ 238,059	\$ 181,585
Mortgage Interest	\$ 11,808	\$ 18,243	\$ 8,456	\$ 7,715	\$ 5,633	\$ 20,508	\$ 11,903	\$ 9,079
2023 Mortgage Statistics								
Years left on mortgage	10	25	25	10	10	25	15	13
Mortgage Rate	6.0%	4.0%	4.0%	6.0%	6.0%	4.0%	5.0%	5.0%
Home Value, Current Year	\$ 581,362	\$ 641,537	\$ 297,371	\$ 461,731	\$ 385,284	\$ 721,160	\$ 351,408	\$ 330,411
Assessment Ratio (percent)	88.96	95.56	93.54	93.79	72.33	95.89	56.54	96.76
Assessed Value	\$ 517,180	\$ 613,053	\$ 278,161	\$ 433,058	\$ 278,676	\$ 691,520	\$ 198,686	\$ 319,706
Property Tax Rate (percent)	2.515	2.039	2.882	2.416	4.165	1.223	5.351	3.057
Property Taxes	\$ 13,007	\$ 12,500	\$ 8,017	\$ 10,463	\$ 11,607	\$ 8,457	\$ 10,632	\$ 9,773
Remaining mortgage amount	\$ 149,581	\$ 412,517	\$ 191,213	\$ 97,739	\$ 71,360	\$ 463,714	\$ 193,108	\$ 141,189
Mortgage Interest	\$ 8,975	\$ 16,501	\$ 7,649	\$ 5,864	\$ 4,282	\$ 18,549	\$ 9,655	\$ 7,059

Table 2. -- Illustrative New Jersey Homeowners: Income, Deductions, and Federal Income Taxes, 2018

Item	Household 1	Household 2	Household 3	Household 4	Household 5	Household 6	Household 7	Household 8
Federal filing status	Single	Married	Single	Married	Married	Married	Head of Household	Married
Number of children under 17	0	2	0	2	0	2	2	0
County of Residence	Bergen County	Monmouth County	Burlington County	Somerset County	Passaic County	Cape May County	Middlesex County	Sussex County
Income:								
Primary earner's wages	\$ 98,594	\$ 74,948	\$ 92,000	\$ 89,595	\$ 86,476	\$ 102,350	\$ 95,899	\$ -
Spouse's wages	\$ -	\$ 49,965	\$ -	\$ 63,614	\$ -	\$ -	\$ -	\$ -
Taxable interest income	\$ 1,553	\$ 3,550	\$ 445	\$ 498	\$ 1,145	\$ 3,394	\$ 461	\$ 507
Qualified dividend income	\$ 695	\$ 2,355	\$ 582	\$ 251	\$ 513	\$ 2,437	\$ 249	\$ 870
Long-term capital gains	\$ 3,444	\$ 5,915	\$ 1,857	\$ 2,526	\$ 2,526	\$ 5,915	\$ 2,526	\$ 454
Social Security Income	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 33,500
Other income/adjustments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 30,000
Total Income	\$ 104,286	\$ 136,733	\$ 94,884	\$ 156,484	\$ 90,660	\$ 114,096	\$ 99,135	\$ 65,331
Deductions:								
Home mortgage interest deduction	\$ 11,808	\$ 18,243	\$ 8,456	\$ 7,715	\$ 5,633	\$ 20,508	\$ 11,903	\$ 9,079
State and local real estate taxes paid	\$ 11,559	\$ 11,108	\$ 7,124	\$ 9,298	\$ 10,314	\$ 7,516	\$ 9,448	\$ 8,685
State and local income taxes paid	\$ 3,816	\$ 3,951	\$ 3,400	\$ 5,081	\$ 1,599	\$ 2,837	\$ 3,332	\$ 268
Charitable contributions	\$ 1,495	\$ 2,244	\$ 1,240	\$ 1,485	\$ 748	\$ 2,570	\$ 500	\$ -
Other itemized deductions	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Potential Deductions under Prior Law	\$ 28,677	\$ 35,546	\$ 20,221	\$ 23,579	\$ 18,294	\$ 33,431	\$ 25,183	\$ 18,032
Results								
Federal AGI:								
AGI under old law	\$ 104,286	\$ 136,733	\$ 94,884	\$ 156,484	\$ 90,660	\$ 114,096	\$ 99,135	\$ 41,725
AGI under new law	\$ 104,286	\$ 136,733	\$ 94,884	\$ 156,484	\$ 90,660	\$ 114,096	\$ 99,135	\$ 41,725
Change in AGI	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Deduction Type:								
Deduction type under old law	Itemized	Itemized	Itemized	Itemized	Itemized	Itemized	Itemized	Itemized
Deduction type under new law	Itemized	Itemized	Itemized	Standard	Standard	Itemized	Itemized	Standard
Deduction Amounts:								
Deductions under old law	\$ 28,677	\$ 35,546	\$ 20,221	\$ 23,579	\$ 18,294	\$ 33,431	\$ 25,183	\$ 18,032
Deductions under new law	\$ 23,303	\$ 30,487	\$ 19,696	\$ 24,000	\$ 24,000	\$ 33,078	\$ 22,403	\$ 26,600
Change in deductions	\$ (5,375)	\$ (5,059)	\$ (224)	\$ 421	\$ 5,706	\$ (353)	\$ (2,780)	\$ 8,568
Exemption Amount:								
Exemption amount under old law	\$ 4,150	\$ 16,600	\$ 4,150	\$ 16,600	\$ 8,300	\$ 16,600	\$ 12,450	\$ 8,300
Federal Taxable Income:								
Taxable income under old law	\$ 71,459	\$ 84,587	\$ 70,513	\$ 116,305	\$ 64,066	\$ 64,066	\$ 61,502	\$ 15,392
Taxable income under new law	\$ 80,983	\$ 106,246	\$ 75,188	\$ 132,484	\$ 66,660	\$ 81,019	\$ 76,732	\$ 15,125
Change in taxable income	\$ 9,525	\$ 21,659	\$ 4,674	\$ 16,179	\$ 2,594	\$ 16,953	\$ 15,230	\$ (268)
Tax Credits								
Child tax credits under old law	\$ -	\$ 650	\$ -	\$ -	\$ -	\$ 1,750	\$ 750	\$ -
Child and family tax credits under new law	\$ -	\$ 4,000	\$ -	\$ 4,000	\$ -	\$ 4,000	\$ 4,000	\$ -
Change in credits	\$ -	\$ 3,350	\$ -	\$ 4,000	\$ -	\$ 2,250	\$ 3,250	\$ -
Federal Income Tax*:								
Federal income tax under old law	\$ 13,104	\$ 10,923	\$ 13,038	\$ 20,106	\$ 8,202	\$ 5,655	\$ 8,483	\$ 1,407
Federal income tax under new law	\$ 13,466	\$ 10,674	\$ 12,310	\$ 16,831	\$ 7,254	\$ 4,882	\$ 7,235	\$ 1,380
Change in tax	\$ 362	\$ (249)	\$ (728)	\$ (3,275)	\$ (948)	\$ (773)	\$ (1,248)	\$ (27)
Federal Effective Tax Rate:								
Tax under old law as a percent of old law taxable income	18.3%	12.9%	18.5%	17.3%	12.8%	8.8%	13.8%	9.1%
Tax under new law as a percent of old law taxable income	18.8%	12.6%	17.5%	14.5%	11.3%	7.6%	11.8%	9.0%
Change in effective tax rate (percentage points)	0.5%	-0.3%	-1.0%	-2.8%	-1.5%	-1.2%	-2.0%	-0.2%

* Includes the net investment income tax and additional Medicare tax under both prior law and new law.

Figure 2 - Federal Income Tax Liability in 2018 under Prior Law and New Law

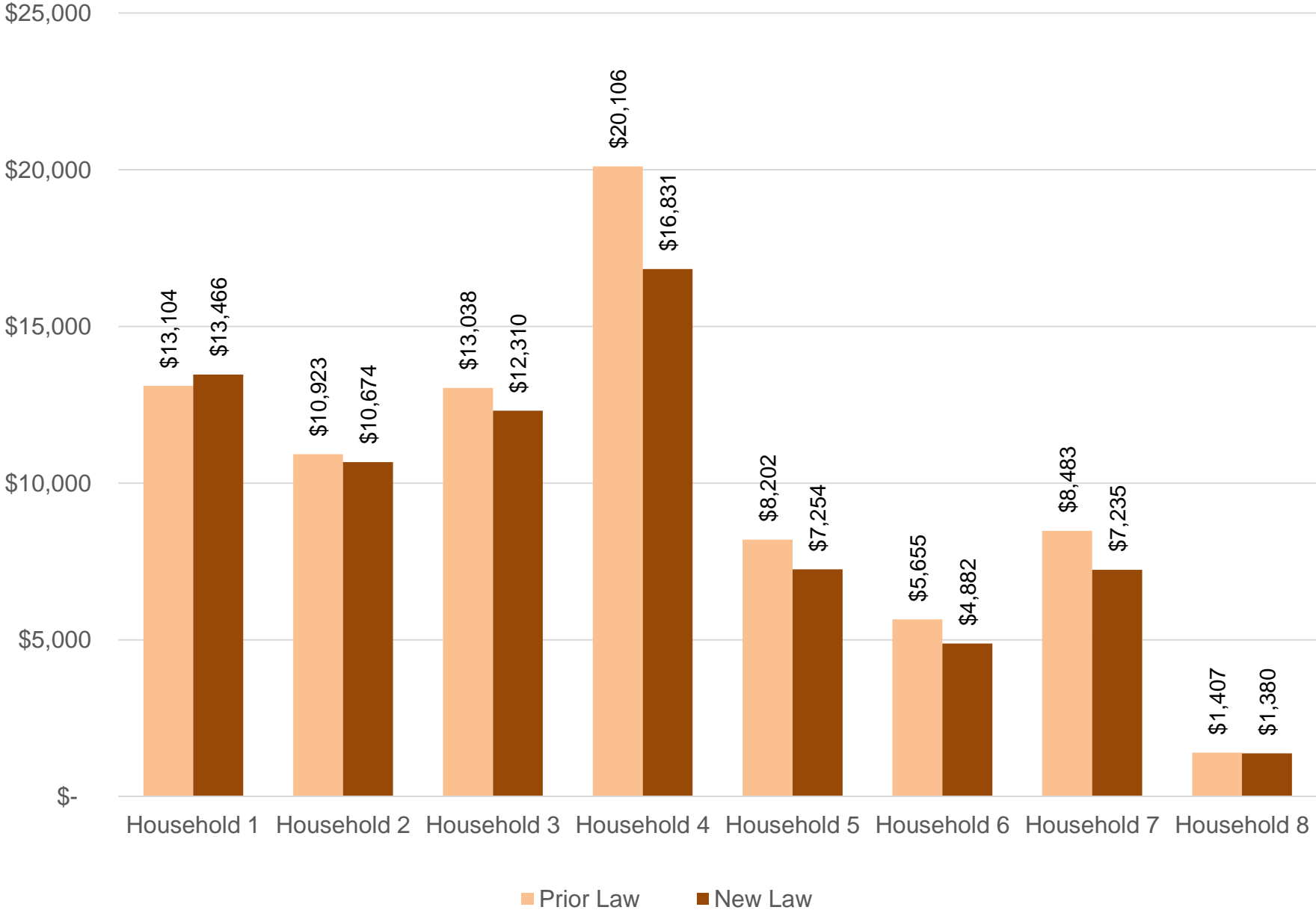
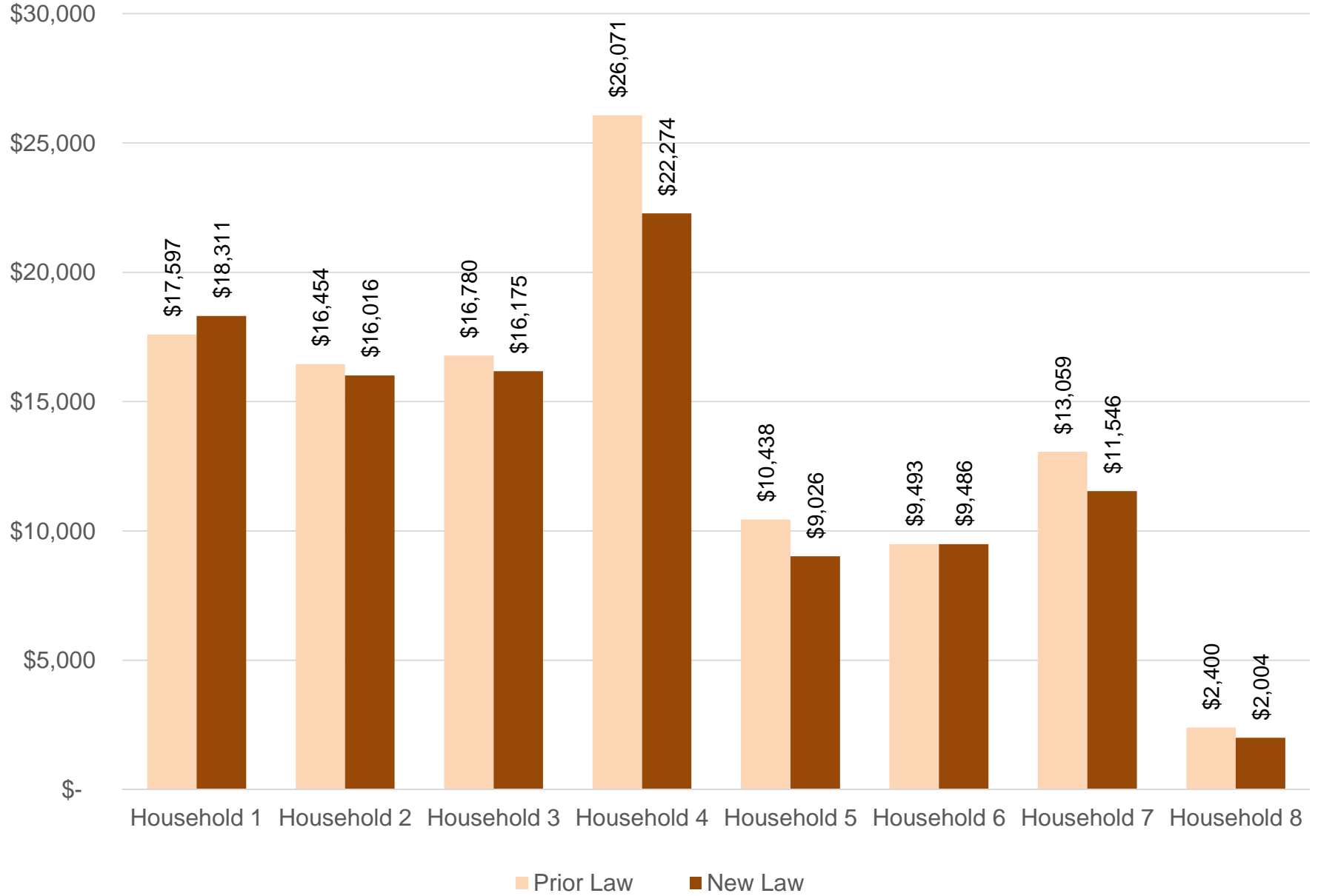


Table 3. -- Illustrative New Jersey Homeowners: Income, Deductions, and Federal Income Taxes, 2023

Item	Household 1	Household 2	Household 3	Household 4	Household 5	Household 6	Household 7	Household 8
Federal filing status	Single	Married	Single	Married	Married	Married	Head of Household	Married
Number of children under 17	0	2	0	2	0	2	2	0
County of Residence	Bergen County	Monmouth County	Burlington County	Somerset County	Passaic County	Cape May County	Middlesex County	Sussex County
Income:								
Primary earner's wages	\$ 118,530	\$ 90,103	\$ 110,603	\$ 107,711	\$ 103,962	\$ 123,046	\$ 115,291	\$ -
Spouse's wages	\$ -	\$ 60,069	\$ -	\$ 76,477	\$ -	\$ -	\$ -	\$ -
Taxable interest income	\$ 1,867	\$ 4,268	\$ 535	\$ 599	\$ 1,377	\$ 4,080	\$ 554	\$ 610
Qualified dividend income	\$ 836	\$ 2,831	\$ 700	\$ 302	\$ 617	\$ 2,930	\$ 299	\$ 1,046
Long-term capital gains	\$ 4,141	\$ 7,111	\$ 2,233	\$ 3,037	\$ 3,037	\$ 7,111	\$ 3,037	\$ 546
Social Security Income	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 37,688
Other income/adjustments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 33,750
Total Income	\$ 125,373	\$ 164,382	\$ 114,070	\$ 188,126	\$ 108,992	\$ 137,167	\$ 119,181	\$ 73,639
Deductions:								
Home mortgage interest deduction	\$ 8,975	\$ 16,501	\$ 7,649	\$ 5,864	\$ 4,282	\$ 18,549	\$ 9,655	\$ 7,059
State and local real estate taxes paid	\$ 13,007	\$ 12,500	\$ 8,017	\$ 10,463	\$ 11,607	\$ 8,457	\$ 10,632	\$ 9,773
State and local income taxes paid	\$ 5,159	\$ 5,478	\$ 4,566	\$ 6,986	\$ 2,584	\$ 4,060	\$ 4,574	\$ 359
Charitable contributions	\$ 1,797	\$ 2,698	\$ 1,491	\$ 1,785	\$ 899	\$ 3,090	\$ 601	\$ -
Other itemized deductions	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Potential Deductions under Prior Law	\$ 28,939	\$ 37,177	\$ 21,722	\$ 25,098	\$ 19,372	\$ 34,156	\$ 25,462	\$ 17,192
Results								
Federal AGI:								
AGI under old law	\$ 125,373	\$ 164,382	\$ 114,070	\$ 188,126	\$ 108,992	\$ 137,167	\$ 119,181	\$ 51,127
AGI under new law	\$ 125,373	\$ 164,382	\$ 114,070	\$ 188,126	\$ 108,992	\$ 137,167	\$ 119,181	\$ 51,127
Change in AGI	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Deduction Type:								
Deduction type under old law	Itemized	Itemized	Itemized	Itemized	Itemized	Itemized	Itemized	Itemized
Deduction type under new law	Itemized	Itemized	Itemized	Standard	Standard	Itemized	Itemized	Standard
Deduction Amounts:								
Deductions under old law	\$ 28,939	\$ 37,177	\$ 21,722	\$ 25,098	\$ 19,372	\$ 34,156	\$ 25,462	\$ 17,151
Deductions under new law	\$ 20,772	\$ 29,198	\$ 19,139	\$ 26,600	\$ 26,600	\$ 31,638	\$ 20,257	\$ 29,500
Change in deductions	\$ (8,166)	\$ (7,978)	\$ (2,582)	\$ 1,502	\$ 7,228	\$ (2,517)	\$ (5,205)	\$ 12,349
Exemption Amount:								
Exemption amount under old law	\$ 4,650	\$ 18,600	\$ 4,650	\$ 18,600	\$ 9,300	\$ 18,600	\$ 13,950	\$ 9,300
Federal Taxable Income:								
Taxable income under old law	\$ 91,785	\$ 108,605	\$ 87,699	\$ 144,428	\$ 80,321	\$ 84,412	\$ 79,769	\$ 24,676
Taxable income under new law	\$ 104,601	\$ 135,183	\$ 94,931	\$ 161,526	\$ 82,392	\$ 105,529	\$ 98,924	\$ 21,627
Change in taxable income	\$ 12,816	\$ 26,578	\$ 7,232	\$ 17,098	\$ 2,072	\$ 21,117	\$ 19,155	\$ (3,049)
Tax Credits								
Child tax credits under old law	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 600	\$ -	\$ -
Child and family tax credits under new law	\$ -	\$ 4,000	\$ -	\$ 4,000	\$ -	\$ 4,000	\$ 4,000	\$ -
Change in credits	\$ -	\$ 4,000	\$ -	\$ 4,000	\$ -	\$ 3,400	\$ 4,000	\$ -
Federal Income Tax*:								
Federal income tax under old law	\$ 17,597	\$ 16,454	\$ 16,780	\$ 26,071	\$ 10,438	\$ 9,493	\$ 13,059	\$ 2,400
Federal income tax under new law	\$ 18,311	\$ 16,016	\$ 16,175	\$ 22,274	\$ 9,026	\$ 9,486	\$ 11,546	\$ 2,004
Change in tax	\$ 714	\$ (438)	\$ (606)	\$ (3,797)	\$ (1,412)	\$ (8)	\$ (1,513)	\$ (397)
Federal Effective Tax Rate:								
Tax under old law as a percent of old law taxable income	19.2%	15.2%	19.1%	18.1%	13.0%	11.2%	16.4%	9.7%
Tax under new law as a percent of old law taxable income	20.0%	14.7%	18.4%	15.4%	11.2%	11.2%	14.5%	8.1%
Change in effective tax rate (percentage points)	0.8%	-0.4%	-0.7%	-2.6%	-1.8%	0.0%	-1.9%	-1.6%

* Includes the net investment income tax and additional Medicare tax under both prior law and new law.

Figure 3 - Federal Income Tax Liability in 2023 under Prior Law and New Law



APPENDIX: ASSUMPTIONS FOR ILLUSTRATIVE HOUSEHOLDS

Household locations were determined by the client, and data on county-wide averages were used to develop financial and mortgage characteristics that show the impact of the new law on a variety of household types.

Each illustrative household is assumed to have the average household income for their county. Average household income was obtained for each county from the US Census Bureau's American Community Survey (ACS) for 2015 (the most recent year available). Average housing values by year, average assessment ratios, and average property tax rates were obtained from the New Jersey Department of the Treasury. Housing values were adjusted to current levels using a state-level housing price index.

Mean household income was allocated across the types of income based on 2014 tax return data for New Jersey taxpayers published by the IRS' Statistics of Income Division (SOI). Tax return data was obtained by AGI size to best match the overall income numbers from the ACS.

Potential itemized deductions were estimated as follows: (1) mortgage values, remaining balances, and mortgage interest were estimated assuming an 80% loan to value ratio and a standard loan amortization schedule for a 30-year mortgage (2) property taxes were estimated by applying county-level property tax rates to the assessed value of the home (determined as the current housing value multiplied by county-level assessment ratios), (3) state income taxes were calculated using the state income tax calculator, and (4) charitable contributions were estimated based on average values reported by SOI for New Jersey taxpayers.

Adjustments were then made for consistency.

Exhibit A
Tax Rates and Lower Bounds for Income Tax Brackets, Prior Law vs. New Law, 2018

Marginal Tax Rate		Lower Bounds for Income Tax Brackets					
		Single Taxpayers		Married, filing jointly		Head of Household	
Prior Law	New Law	Prior Law	New Law	Prior Law	New Law	Prior Law	New Law
10%	10%	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
15%	12%	\$ 9,525	\$ 9,525	\$ 19,050	\$ 19,050	\$ 13,600	\$ 13,600
25%	22%	\$ 38,700	\$ 38,700	\$ 77,400	\$ 77,400	\$ 51,850	\$ 51,800
28%	24%	\$ 93,700	\$ 82,500	\$ 156,150	\$ 165,000	\$ 133,850	\$ 82,500
33%	32%	\$ 195,450	\$ 157,500	\$ 237,950	\$ 315,000	\$ 216,700	\$ 157,500
35%	35%	\$ 424,950	\$ 200,000	\$ 424,950	\$ 400,000	\$ 424,950	\$ 200,000
39.6%	37%	\$ 426,700	\$ 500,000	\$ 480,050	\$ 600,000	\$ 453,350	\$ 500,000