



# ***Assessing the Impact of the House Tax Reform Plan on Illustrative New Jersey Homeowners***

Prepared for

New Jersey REALTORS<sup>®</sup> Issues Mobilization Fund

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## INTRODUCTION

On November 16, 2017 the House of Representatives passed the "Tax Cuts and Jobs Act" (HR 1) which would implement significant changes to the federal tax code. The bill includes changes to marginal tax rates and the tax base, including repeal of the deduction for state and local income taxes and a limitation on the amount of property taxes that can be deducted. The bill 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 plan on illustrative New Jersey homeowners in terms of the federal taxes they would pay under current law and the proposal, assuming no changes in the homeowners' pretax income or expenses. Results are presented for tax years 2018 and 2023 for the legislation as passed. The impacts of potential future modifications, such as the extension of the family tax credit, have not been included.

To this end, PwC developed a set of income and housing characteristics for eight 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.

Each household was then run through a federal and state income tax calculator to determine federal and state taxes due under current law and under the proposal. Calculations assume that homeowners do not change their behavior, such as by reallocating savings or changing charitable giving, in response to the tax reform.

**The results presented are specific to the bill as passed by the House of Representatives on November 16, 2017, and do not reflect alternative proposals under consideration in the Senate or other modifications that may occur through the legislative process.**

## KEY PROVISIONS

Key provisions of the tax reform plan modeled include:

1. Reduction in individual income tax rates and modification on tax brackets. In particular, the plan specifies four tax brackets with rates of 12%, 25%, 35%, and 39.6%. The 25% bracket would begin at taxable income of \$90,000 for married taxpayers filing joint returns, \$67,500 for heads of household, and \$45,000 for single taxpayers. The 35% bracket would begin at \$260,000 for married taxpayers and \$200,000 for single and head of household. The 39.6% bracket would begin at \$1 million for married taxpayers and \$500,000 for all other taxpayers. Brackets would be indexed for inflation using the chained CPI-U.<sup>1</sup>
2. Increase in the standard deduction to \$24,400 for married taxpayers filing a joint return, \$18,300 for head-of-household filers, and \$12,200 for all other taxpayers and repeal of the additional standard deduction for the aged and blind.
3. Repeal of personal exemptions.
4. Repeal of the overall limit on itemized deductions and changes to deductions including:
  - Repeal of the itemized deduction for state and local income and sales taxes.
  - Limitation of the deduction for state and local 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. Furthermore, taxpayers may treat no more than \$500,000 as principal residence acquisition indebtedness (\$250,000 in the case of married taxpayers filing separately) for residences purchased after November 2, 2017 (unless acquired subject to a binding contract entered into prior to November 2).
5. Increase in the child credit to \$1,600 and modification of the phase-out and refundable portion of the credit. The plan also creates a new \$300 tax credit for each taxpayer and non-child dependents. The new credit expires for tax years beginning after December 31, 2022.
6. Phase-out of the exclusion (\$500,000 married filers and \$250,000 others) for capital gains on the sale of primary residences for taxpayers with AGI over \$500,000 (\$250,000 for single filers). Taxpayers would have to live in the residence for at least 5 of the prior 8 years to qualify for the exclusion.
7. Repeal of the individual alternative minimum tax (AMT).

<sup>1</sup>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 also would be indexed for inflation using the chained CPI-U. These values, along with the personal exemption and phase-out amounts, the threshold for the overall limitation on itemized deductions, and various AMT parameters are all indexed using the standard (unchained) CPI-U under current law. 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 reform plan on eight illustrative New Jersey homeowners, in terms of the change in federal income taxes in tax years 2018 and 2023.

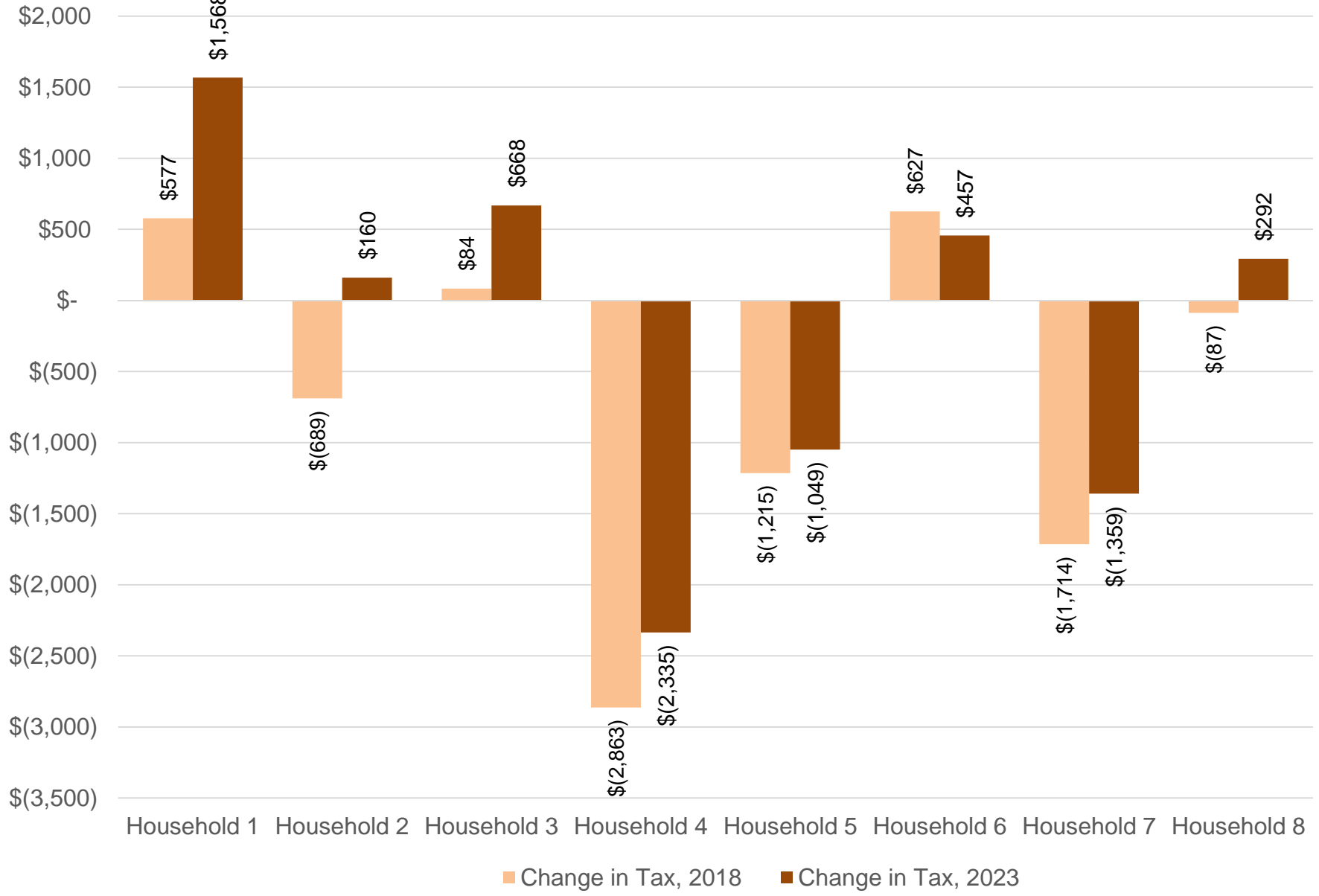
In 2018, five of the eight households would receive a tax reduction under the proposal. For these households, lower tax rates and higher credits would be sufficient to offset a loss of itemized deductions and personal exemptions. Three out of the eight households would experience a tax increase under the proposal. Two of these households (Households 1 and 3) are single filers with no children; they would lose a portion of their itemized deductions and personal exemptions, and would not benefit from the increased child credits. The third household with a tax increase in 2018 (Household 6) is married. The increased credits and lower rates would not be sufficient to offset the loss of personal exemptions and itemized deductions for this household.

The results in 2023 would differ with the expiration of the family tax credit in 2022 and the slower indexation of tax brackets. To evaluate the impact of these changes, 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 GDP and inflation (for Social Security and annuity income). Households are assumed to continue paying down their mortgage 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.

In 2023, five out of the eight households would experience a tax increase under the proposal. Two of the three households with tax decreases (Households 4 and 5) are married and have relatively small mortgages. The third household with a tax decrease (Household 7) files as a head of household and would benefit from the lower tax rates and higher child credits. If the family tax credit were extended, the results would differ.

Detail on household characteristics and the results 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



2023 impacts assume the family tax credit expires as scheduled in 2022.

**Table 1. -- Illustrative New Jersey Homeowners  
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
<b>2018 Mortgage Statistics</b>								
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
<b>2023 Mortgage Statistics</b>								
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

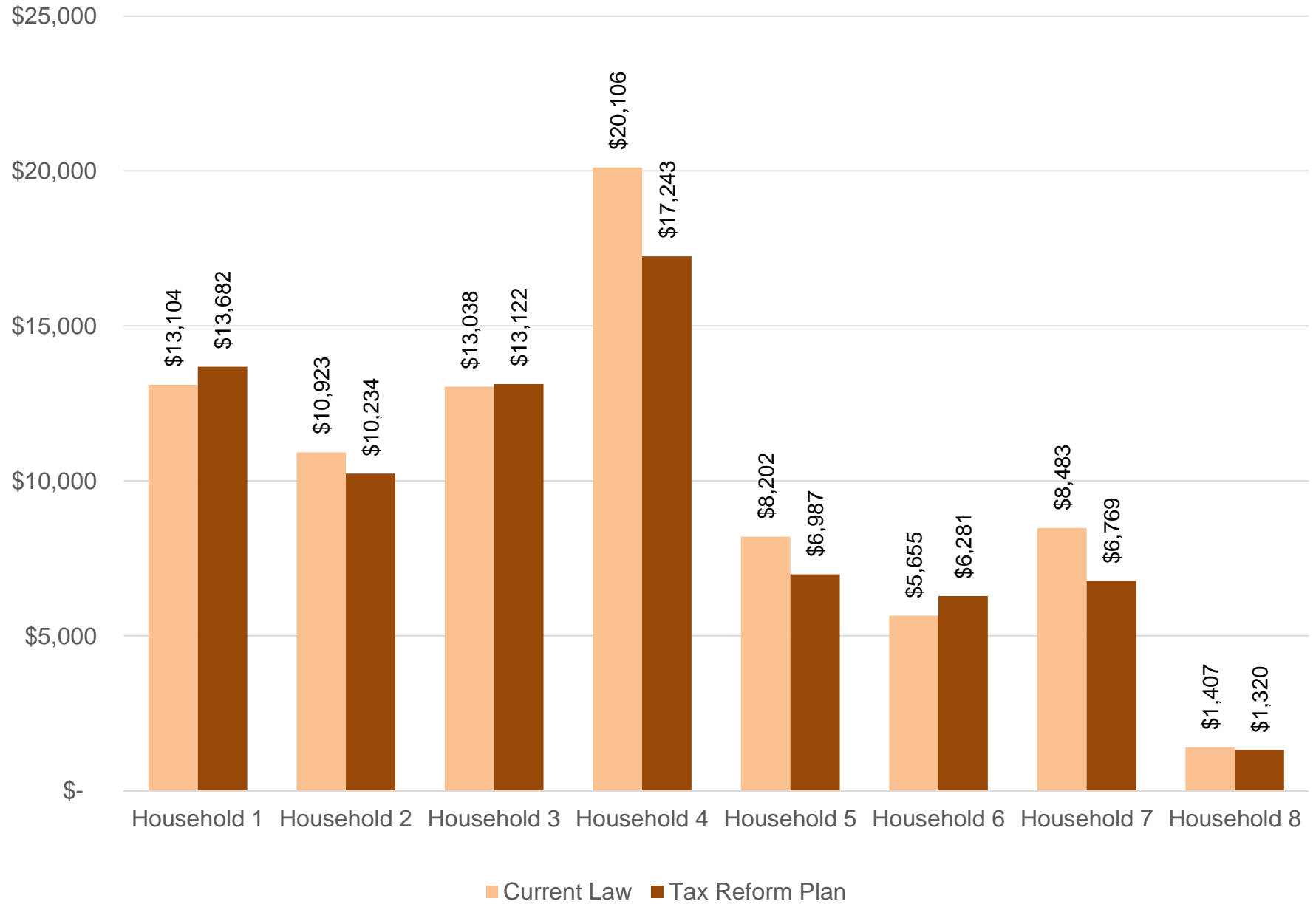
**Table 2. -- Illustrative New Jersey Homeowners: Income, Deductions, and Federal Income Taxes, 2018**

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
<b>Income:</b>								
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
<b>Total Income</b>	<b>\$ 104,286</b>	<b>\$ 136,733</b>	<b>\$ 94,884</b>	<b>\$ 156,484</b>	<b>\$ 90,660</b>	<b>\$ 114,096</b>	<b>\$ 99,135</b>	<b>\$ 65,331</b>
<b>Deductions:</b>								
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	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Total Potential Deductions under Current Law</b>	<b>\$ 28,677</b>	<b>\$ 35,546</b>	<b>\$ 20,221</b>	<b>\$ 23,579</b>	<b>\$ 18,294</b>	<b>\$ 33,431</b>	<b>\$ 25,183</b>	<b>\$ 18,032</b>
<b>Results</b>								
<b>Federal Income Tax:*</b>								
Federal income tax under current law	\$ 13,104	\$ 10,923	\$ 13,038	\$ 20,106	\$ 8,202	\$ 5,655	\$ 8,483	\$ 1,407
Federal income tax under tax reform plan	\$ 13,682	\$ 10,234	\$ 13,122	\$ 17,243	\$ 6,987	\$ 6,281	\$ 6,769	\$ 1,320
Change in tax	\$ 577	\$ (689)	\$ 84	\$ (2,863)	\$ (1,215)	\$ 627	\$ (1,714)	\$ (87)
<b>Federal AGI:</b>								
AGI under current law	\$ 104,286	\$ 136,733	\$ 94,884	\$ 156,484	\$ 90,660	\$ 114,096	\$ 99,135	\$ 41,725
AGI under tax reform plan	\$ 104,286	\$ 136,733	\$ 94,884	\$ 156,484	\$ 90,660	\$ 114,096	\$ 99,135	\$ 41,725
Change in AGI	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Deduction Type:</b>								
Deduction type under current law	Itemized	Itemized	Itemized	Itemized	Itemized	Itemized	Itemized	Itemized
Deduction type under tax reform plan	Itemized	Itemized	Itemized	Standard	Standard	Itemized	Itemized	Standard
<b>Deduction Amounts:</b>								
Deductions under current law	\$ 28,677	\$ 35,546	\$ 20,221	\$ 23,579	\$ 18,294	\$ 33,431	\$ 25,183	\$ 18,032
Deductions under tax reform plan	\$ 23,303	\$ 30,487	\$ 16,820	\$ 24,400	\$ 24,400	\$ 30,086	\$ 21,851	\$ 24,400
Change in deductions	\$ (5,375)	\$ (5,059)	\$ (3,400)	\$ 821	\$ 6,106	\$ (3,345)	\$ (3,332)	\$ 6,368
<b>Exemption Amount:</b>								
Exemption amount under current law	\$ 4,150	\$ 16,600	\$ 4,150	\$ 16,600	\$ 8,300	\$ 16,600	\$ 12,450	\$ 8,300
<b>Federal Taxable Income:</b>								
Taxable income under current law	\$ 71,459	\$ 84,587	\$ 70,513	\$ 116,305	\$ 64,066	\$ 64,066	\$ 61,502	\$ 15,392
Taxable income under tax reform plan	\$ 80,983	\$ 106,246	\$ 78,064	\$ 132,084	\$ 66,260	\$ 84,011	\$ 77,284	\$ 17,325
Change in taxable income	\$ 9,525	\$ 21,659	\$ 7,550	\$ 15,779	\$ 2,194	\$ 19,945	\$ 15,782	\$ 1,932
<b>Tax Credits</b>								
Child tax credits under current law	\$ -	\$ 650	\$ -	\$ -	\$ -	\$ 1,750	\$ 750	\$ -
Child and family tax credits under tax reform plan	\$ 300	\$ 3,800	\$ 300	\$ 3,800	\$ 600	\$ 3,800	\$ 3,500	\$ 600
Change in credits	\$ 300	\$ 3,150	\$ 300	\$ 3,800	\$ 600	\$ 2,050	\$ 2,750	\$ 600
<b>Federal Effective Tax Rate:**</b>								
Tax under baseline as a percent of taxable income	18.3%	12.9%	18.5%	17.3%	12.8%	8.8%	13.8%	9.1%
Tax under tax reform as a percent of taxable income	19.1%	12.1%	18.6%	14.8%	10.9%	9.8%	11.0%	8.6%
Change in effective tax rate (percentage points)	0.8%	-0.8%	0.1%	-2.5%	-1.9%	1.0%	-2.8%	-0.6%

\* Includes the net investment income tax and additional Medicare tax under both current law and tax reform.

\*\* Current law taxable income used to calculate effective tax rate under current law and proposal.

Figure 2 - Federal Income Tax Liability in 2018 under Current Law and the Tax Reform Plan





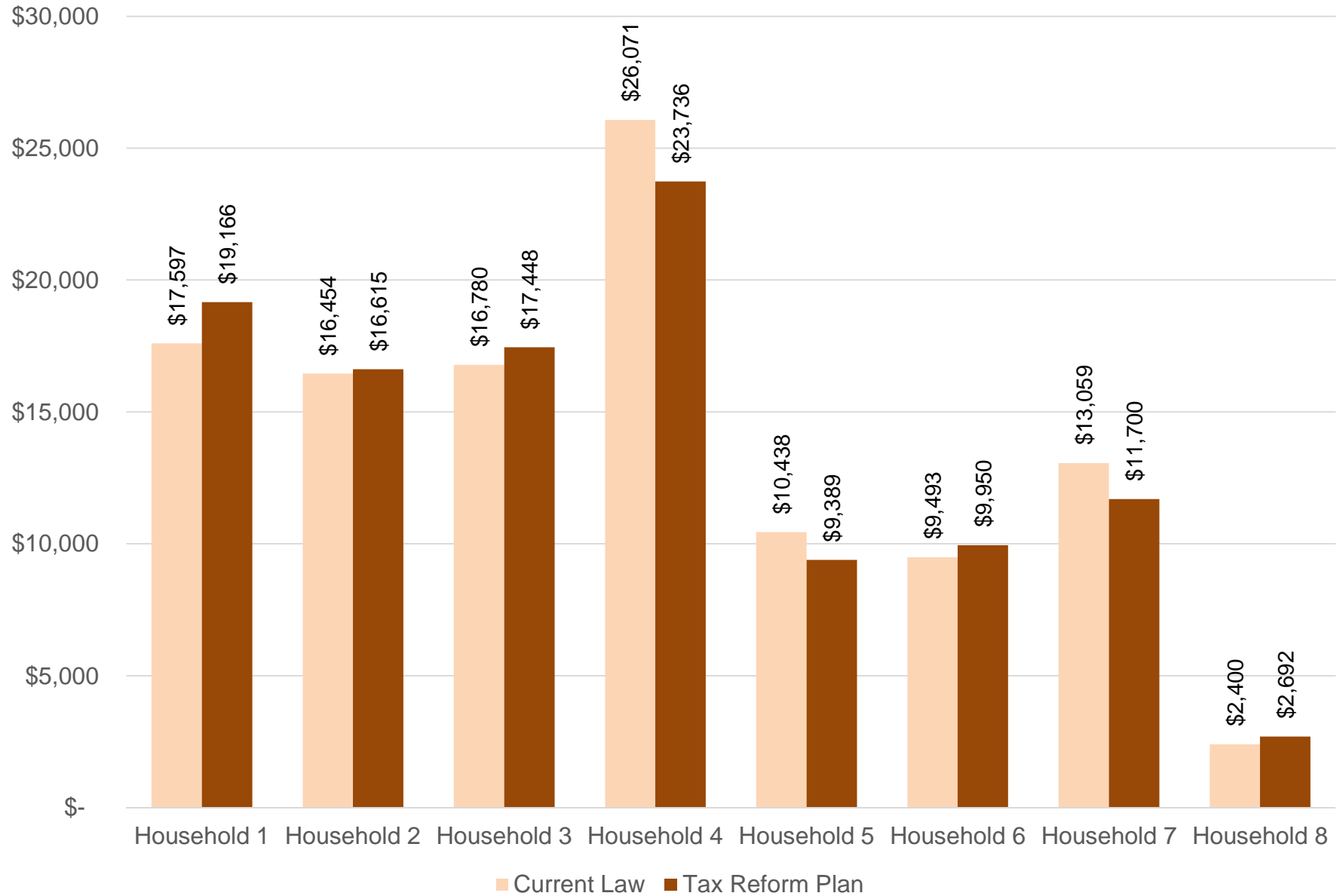
**Table 3. -- Illustrative New Jersey Homeowners: Income, Deductions, and Federal Income Taxes, 2023**

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
<b>Income:</b>								
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
<b>Total Income</b>	<b>\$ 125,373</b>	<b>\$ 164,382</b>	<b>\$ 114,070</b>	<b>\$ 188,126</b>	<b>\$ 108,992</b>	<b>\$ 137,167</b>	<b>\$ 119,181</b>	<b>\$ 73,639</b>
<b>Deductions:</b>								
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	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Total Potential Deductions under Current Law</b>	<b>\$ 28,939</b>	<b>\$ 37,177</b>	<b>\$ 21,722</b>	<b>\$ 25,098</b>	<b>\$ 19,372</b>	<b>\$ 34,156</b>	<b>\$ 25,462</b>	<b>\$ 17,192</b>
<b>Results</b>								
<b>Federal Income Tax:*</b>								
Federal income tax under current law	\$ 17,597	\$ 16,454	\$ 16,780	\$ 26,071	\$ 10,438	\$ 9,493	\$ 13,059	\$ 2,400
Federal income tax under tax reform plan	\$ 19,166	\$ 16,615	\$ 17,448	\$ 23,736	\$ 9,389	\$ 9,950	\$ 11,700	\$ 2,692
Change in tax	\$ 1,568	\$ 160	\$ 668	\$ (2,335)	\$ (1,049)	\$ 457	\$ (1,359)	\$ 292
<b>Federal AGI:</b>								
AGI under current law	\$ 125,373	\$ 164,382	\$ 114,070	\$ 188,126	\$ 108,992	\$ 137,167	\$ 119,181	\$ 51,127
AGI under tax reform plan	\$ 125,373	\$ 164,382	\$ 114,070	\$ 188,126	\$ 108,992	\$ 137,167	\$ 119,181	\$ 51,127
Change in AGI	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Deduction Type:</b>								
Deduction type under current law	Itemized	Itemized	Itemized	Itemized	Itemized	Itemized	Itemized	Itemized
Deduction type under tax reform plan	Itemized	Itemized	Itemized	Standard	Standard	Itemized	Standard	Standard
<b>Deduction Amounts:</b>								
Deductions under current law	\$ 28,939	\$ 37,177	\$ 21,722	\$ 25,098	\$ 19,372	\$ 34,156	\$ 25,462	\$ 17,151
Deductions under tax reform plan	\$ 20,772	\$ 29,198	\$ 17,156	\$ 27,100	\$ 27,100	\$ 30,096	\$ 20,300	\$ 27,100
Change in deductions	\$ (8,166)	\$ (7,978)	\$ (4,566)	\$ 2,002	\$ 7,728	\$ (4,060)	\$ (5,162)	\$ 9,949
<b>Exemption Amount:</b>								
Exemption amount under current law	\$ 4,650	\$ 18,600	\$ 4,650	\$ 18,600	\$ 9,300	\$ 18,600	\$ 13,950	\$ 9,300
<b>Federal Taxable Income:</b>								
Taxable income under current law	\$ 91,785	\$ 108,605	\$ 87,699	\$ 144,428	\$ 80,321	\$ 84,412	\$ 79,769	\$ 24,676
Taxable income under tax reform plan	\$ 104,601	\$ 135,183	\$ 96,914	\$ 161,026	\$ 81,892	\$ 107,072	\$ 98,881	\$ 24,027
Change in taxable income	\$ 12,816	\$ 26,578	\$ 9,216	\$ 16,598	\$ 1,572	\$ 22,660	\$ 19,112	\$ (649)
<b>Tax Credits</b>								
Child tax credits under current law	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 600	\$ -	\$ -
Child tax credits under tax reform plan	\$ -	\$ 3,200	\$ -	\$ 3,200	\$ -	\$ 3,200	\$ 2,950	\$ -
Change in credits	\$ -	\$ 3,200	\$ -	\$ 3,200	\$ -	\$ 2,600	\$ 2,950	\$ -
<b>Federal Effective Tax Rate:**</b>								
Tax under baseline as a percent of taxable income	19.2%	15.2%	19.1%	18.1%	13.0%	11.2%	16.4%	9.7%
Tax under tax reform as a percent of taxable income	20.9%	15.3%	19.9%	16.4%	11.7%	11.8%	14.7%	10.9%
Change in effective tax rate (percentage points)	1.7%	0.1%	0.8%	-1.6%	-1.3%	0.5%	-1.7%	1.2%

\* Includes the net investment income tax and additional Medicare tax under both current law and tax reform. Assumes family tax credit expires as scheduled in 2022.

\*\* Current law taxable income used to calculate effective tax rate under current law and proposal.

**Figure 3 - Federal Income Tax Liability in 2023 under Current Law and the Tax Reform Plan**



2023 tax reform plan impacts assume the family tax credit expires as scheduled in 2022.

## **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 tax reform 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 (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 and to insure all relevant cases were covered.