

NAR Issue Brief: Summary of NAR Study on Tax Reform

Issue Background

The National Association of REALTORS® engaged PwC to review the impact of comprehensive tax reform that would lower and consolidate marginal tax rates to three rates with a top rate of 33 percent, double the standard deduction, eliminate all itemized deductions other than charitable contributions and mortgage interest, eliminate personal exemptions and the Alternative Minimum Tax, and cap the tax rate on pass-through business income at 25 percent. The following are highlights of the report.

Mortgage Interest Under Current Law

- A projected **35.4 million households** will claim itemized deductions of \$359 billion for mortgage interest in 2018. Almost three-quarters of them (25.3 million) have incomes between \$50,000 and \$200,000.

State and Local Property Tax Deduction

- In 2018, an estimated **40.7 million taxpayers will report itemized deductions for property taxes of \$206 billion**. Seventy percent of the taxpayers claiming this deduction are estimated to have adjusted gross income (AGI) between \$50,000 and \$200,000.

Overall Impact of Tax Reform

- Overall, the reform proposal would decrease federal revenues by \$1.1 trillion over the 2018 to 2027 period.
- Tax expenditures associated with homeownership (the amount of foregone revenues from the mortgage interest and property tax deductions) would **drop by 82 percent or almost \$1.1 trillion over fiscal years 2018-2027**.

Distributional Impact of Tax Reform

- Taxpayers (including both homeowners and non-homeowners) with **AGI between \$75,000 and \$250,000 would on average pay higher income taxes**, while all other income categories would on average enjoy tax reductions.
- Homeowners with AGI between \$50,000 and \$200,000 would see an **average tax increase of \$815**.
- Non-homeowners with AGI in the same range would see an **average tax reduction of \$516**.
- Taxpayers with **AGI under \$50,000 would see average tax reductions of under \$100**.
- Taxpayers with **AGI over \$200,000 would see average tax decreases of over \$15,000**.

Impact of Tax Reform on Housing Prices

Comprehensive tax reform will impact the demand for owner-occupied housing by reducing the number of homeowners who claim the mortgage interest deduction, eliminating the itemized deduction for property taxes, and decreasing marginal tax rates.

- The after-tax cost of homeownership will increase while the opportunity cost of home equity (relative to alternative investments) will rise. These factors will lead to a decline in housing prices in the short run, as housing becomes a less attractive investment.
- **Home prices in the short run would fall by an overall average of 10.2 percent** because of the comprehensive tax reform. The price impacts in specific localities will vary based on local conditions. The report found decreases between 8-12 percent based on alternative assumptions for local conditions.