FIRST-TIME BUYER EXAMPLE

To illustrate how the changes to the standard deduction, repeal of personal exemptions, mortgage interest and state and local taxes might affect a first-time homebuyer, consider the example of Barbara Buyer. Barbara, an accountant making $91,580 per year, is single and currently rents an apartment. She also pays state income tax of $5,086 and makes charitable contributions of $2,088, but the total of these is lower than the standard deduction, so she claims the standard deduction.

Barbara's tax liability for 2018 under the prior law is as follows:

Salary income	$91,580
Standard deduction	($ 6,500)
Personal exemption	($ 4,150)
Taxable income	$79,862
Tax	$ 15,619

Under the new law, Barbara would get a tax cut, computed as follows:

Salary income	$91,580
Standard deduction	($12,000)
Personal exemption	($ - 0 -)
Taxable income	$77,492
Tax	$ 12,988

Tax Difference Under New Law. Even though Barbara would not get the benefit of the personal exemption under the new law, her higher standard deduction would more than make up for the loss. In addition, the lower tax rates of the new law would help deliver the total tax cut of $2,632 ($15,619 - $12,988) as compared with the prior law.

However, let's take a look at what happens to Barbara if she were to purchase a condo costing $440,000 (median price for a condo in California). She takes out a 30-year fixed rate mortgage at 4.5% interest, putting down 20%. Assuming she buys early in 2018, her first-year mortgage interest would total $15,372 and she would pay real property taxes of $5,500.

As a first-time homeowner, her tax liability under the prior law would be computed as follows:

Salary income	$91,580
Mortgage interest	$ 15,372
Real property tax (1.25%)	$ 5,500
State income tax	$ 3,738
Charitable contributions	$ 2,088
Total itemized deductions	($26,699)
Personal exemption	($ 4,150)
Taxable income	$60,731
Tax	$ 10,837

FIRST-TIME BUYER EXAMPLE

Note: Under the prior law, Barbara would lower her tax liability for 2018 by $4,783 ($15,619 - $10,837) by purchasing the condo. This is the financial effect of the prior law's tax benefits of buying a home. This amount effectively lowers her monthly mortgage payment by $399 per month.

Now, let's take a look at what her tax situation would be under the new law as a first-time homebuyer:

Salary income	$91,580
Mortgage interest	$ 15,372
Real property tax (1.25%)	$ 5,500
State income tax	$ 3,738
Charitable contributions (3.6% of income)	$ 2,088
Total itemized deductions	($26,699)
Personal exemption	($ - 0 -)
Taxable income	$64,881
Tax	$10,213

Tax Difference Under New Law. Even though Barbara would still be able to claim all of her itemized deductions under the new law, she would lose the benefit of her personal exemption. However, her taxes would actually go down under the new law by $623 ($10,837 - $10,213) as the lower tax rate would more than make up for the loss.

Note: This example pertains to federal taxes only.

Disclaimer: This is not intended to provide legal or tax advice. Application of provisions to particular tax situations need to be discussed with an accountant, CPA, or tax attorney.

CALIFORNIA ASSOCIATION OF REALTORS®