

“Tax Reform Must Preserve Policies that Encourage Homeownership & Investment in Real Estate”

ASK FOR HOUSE and SENATE:

- **Mortgage Interest Deduction (MID) and Deduction for Property Taxes:** For 100 years now, these two provisions have helped make homeownership more affordable for middle-class families and strengthened our communities. Oppose efforts to change or eliminate the MID for primary and second homes. Congress should not double-tax real estate owners by eliminating or limiting the deduction for property taxes.
- **Capital Gains Exclusion for Sale of Principal Residence:** Individuals can exclude the first \$250,000 (and married couples the first \$500,000) of gain from the sale of their principal residence from capital gains tax. This provision simplifies tax compliance and allows homeowners to build equity and save for retirement. Congress should maintain the exclusion and index the limits for inflation.
- **Exclusion of “Phantom Income” from Mortgage Cancellation:** Millions of homeowners are still “underwater” on their home loans and will face devastating tax bills on income never received in cash as they sell short or participate in “workouts” with their lender to lower their mortgage amounts. The temporary exclusion of income from discharge of mortgage debt should be made permanent.
- **Depreciation of Real Property:** The current depreciation periods of commercial and residential buildings are unreasonably long and should be shortened to reflect the true useful lives of these assets. In addition, the temporary provision allowing faster write-off for leasehold improvements should be made permanent.
- **Tax-Deferred Like-Kind Exchanges:** Our tax system has long recognized that when an investor in real estate exchanges one property for another of like kind, economically, nothing has changed. The current-law like-kind exchange provision promotes job creation and economic growth by allowing capital to flow more freely, and Congress should maintain it.

ISSUE BACKGROUND:

Both the House and Senate are considering options to reform the federal tax system. While no detailed proposals have yet emerged from the tax-writing committees (Ways and Means in House, Finance in Senate), lawmakers of both parties in both chambers have indicated strong interest in passing a tax reform measure this year.

In the House, Ways and Means Chairman Dave Camp (R-MI) is pursuing “revenue-neutral” tax reform that would lower the tax rates by eliminating various tax deductions and credits. Senate Finance Chairman Max Baucus (D-MT) has endorsed a “blank slate” approach that would eliminate all deductions, exemptions, and credits and start with the lowest rates as possible. Both chairmen have set goals to have their respective committees pass tax reform bills this fall.

While few believe every deduction will be eliminated in tax reform, all are on the table for discussion and tax provisions affecting homeownership and real estate investment are particularly vulnerable.

WHY IS THIS IMPORTANT?

- Tax reform carries high stakes for real estate professionals and those who own real estate. Changes to the current system would change the economics of home ownership and real estate investment.
- Any modification of the real estate-related tax provisions in the current fragile economy could cause serious damage and could smother the housing recovery that is now finally leading the economy to recovery.
- When homeowners and real estate investors purchased their properties, they relied on long-standing tax rules remaining in place throughout the course of their ownership. Changing these rules in the middle of the game is unfair and can cause great harm, not only to individuals and families, but to businesses and entire industries.
- Even if tax reform is successful in lowering tax rates and creating growth and simplicity, tax rates are likely to go back up when Congress needs more revenue, and the reinstatement of the lost tax provisions is very unlikely.

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WHAT IS THE OTHER SIDE OF THE ARGUMENT?

Our current tax system is a nightmare of complexity and is riddled with special interest loopholes and unwarranted provisions that are poorly targeted or ineffective. In the real estate area, most of these provisions are too rich and benefit mostly higher-income taxpayers. The provisions specifically designed to help increase homeownership (the MID and property tax deduction) are available only to the roughly one-third of taxpayers who itemize (who happen to be those with the highest incomes), and there is little evidence they are effective in achieving the goal.

THE BOTTOM LINE

Current-law real estate tax provisions are vital to the health of the economy and to homeownership. Ninety percent of taxpayers claiming the mortgage interest and property tax deductions earned less than \$200,000 per year. Also, more than 75 percent of homeowners utilize the mortgage interest deduction over the period they own their home. Commercial and investment real estate plays a critical role in virtually every facet of our economy. Tax reform that negatively alters the fundamentals of real estate investment and ownership could halt our current economic recovery.