

Real Estate-Related Tax Policies are Vital to the Economy

Congressional Action Needed

- Congress is unlikely to pass tax reform in 2016. However, lawmakers and their staffs are already gearing up with plans and ideas for next year when we will have a new president and possibly a shift in control of the Senate and/or House.
- Now is the time for Members of Congress and their staffs to be reminded how vital real estate tax provisions are to the housing market and the U.S. economy. Reform ideas that repeal or weaken tax provisions that encourage homeownership must be rejected. We need tax reform, but it must first do no harm.

Congressional Actions To Date

- Though no viable tax reform legislation has been introduced in the current Congress, House and Senate leaders on both sides of the aisle are developing plans to move their vision of tax reform next year, when political conditions are likely to be more favorable.

What To Tell Your Representatives And Senators

- **Mortgage Interest Deduction (MID):** Since the inception of the modern income tax, the MID has made homeownership possible for millions of American families, while strengthening society. *Reject tax reform plans that eliminate or marginalize the mortgage interest deduction for primary and second homes.*
- **Property Tax Deduction:** Some reform plans would repeal the deduction for property taxes paid. This idea would not only raise taxes on millions of middle-income Americans, but would also put homeownership out of reach for many who want to buy their first home. *Say no to tax reform that repeals the property tax deduction.*
- **Like-Kind Exchanges:** For nearly a century, the Section 1031 provision has encouraged growth by permitting real estate held for investment to be exchanged for property of a like-kind on a tax-deferred basis. Exchanges are essential to the commercial real estate sector and to the economy. If repealed, fewer redevelopment projects will go forward, and fewer jobs will be created. The like-kind exchange provision provides liquidity to an illiquid asset. *Repealing it would harm economic growth.*

Issue Background

While tax reform will most likely not be enacted this year, ideas being discussed now by House and Senate tax leaders will be the ones in play when political conditions line up in favor of moving tax reform. Members of Congress need to be reminded *now* that tax change ideas that harm real estate are non-starters.

Housing Tax Incentives Must Be Preserved

- More than 75 percent of homeowners utilize the mortgage interest deduction at some point over the period they own a home.
- Of all those claiming MID, 88 percent earn less than \$200,000; limiting or repealing current housing tax incentives would hurt the housing sector and unfairly harm homeowners, who already pay 80–90 percent of all federal income tax.
- For many homeowners, the property taxes deduction is substantial, and one that continues long after a mortgage is paid off. Repealing property tax deductions would unfairly cause double taxation of the same income.
- The value of both the mortgage interest and property tax deductions is imbedded into house prices. Eliminating the MID alone would cause on average an 11 percent drop in home values; decreasing the deduction, even for a limited group, would compress the value of *all* homes.
- Limiting the tax incentives of homeownership would weaken families, society, and undermine the American Dream.

Like-Kind Exchanges Must Be Retained

- Repealing the like-kind exchange provision would be counter-productive to economic growth and job creation with little gain in revenue.
- Two separate tax reform plans by former tax committee chairmen (Baucus and Camp) proposed the repeal of Section 1031, and the President's budget again this year advocated a major cutback. Members of Congress and their staffs must be educated on the importance of the like-kind exchange provision to their own states and districts.

Opposing Viewpoints

- Critics will argue that a simpler tax code with lower rates is better for housing than the current system, and the MID most benefits high-income homeowners who do not need help buying a home.
- Deductions for property taxes subsidize high taxes and encourage bloated governments.
- Critics argue the like-kind exchange provision is a loophole that exclusively benefits those fortunate enough to own investment property.