Tax Policies Supporting Real Estate are Vital to the Economy

Congressional Action Needed

- Congress is very unlikely to pass tax reform in 2016. However, lawmakers and their staffs are now developing tax reform proposals 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 the current real estate tax provisions are to the housing market and the 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):** For more than a century, the MID has helped put homeownership within the reach of millions of Americans, strengthening families and society. *Reject tax reform plans that eliminate or marginalize the mortgage interest deduction for primary and second homes, and be wary of proposals that greatly increase the standard deduction. Such plans can covertly cripple the tax benefits of owning a home for most while adding little simplification.*
- **Property Tax Deduction:** Some reform plans would repeal the deduction for state and local taxes, including those for real estate. This idea would not only raise taxes on millions of middle-income Americans, but would also place homeownership beyond the means of many who want to buy their first home. *Say no to tax reform that repeals the property tax deduction.*
- **Like-Kind Exchanges:** For almost 100 years, 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 If repealed, fewer redevelopment projects will go forward, and fewer jobs will be created.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 and cost jobs.*

Issue Background

While tax reform has little chance of enactment this year, proposals coming forward now from House and Senate tax leaders will likely be the ones in play when political conditions line up in favor of moving tax reform, which could be as soon as next year. 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.
- For many homeowners, the property taxes deduction is substantial, and one that continues long after a mortgage is paid off.
- 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 or removing the tax incentives of homeownership would not only rattle the economy, but would also weaken families, society, and undermine the American Dream.

Like-Kind Exchanges Must Be Retained

- Repealing the like-kind exchange provision would be counterproductive 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/Supporting 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. Supporters will respond that 88 percent of all those claiming MID earn less than $200,000, and 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.
- Critics will argue that deductions for state and local taxes subsidize high taxes and encourage bloated governments. Supporters will say repealing the property tax deduction would unfairly cause double taxation of the same income.
- Some reformers believe eliminating itemized deductions would greatly simplify the tax system. Advocates for home ownership counter that the small reduction in complexity achieved by raising the standard deduction would come at too high a price—the loss of tax incentives for owning a home, and the resultant harm to the housing market and economy.
- Critics argue the like-kind exchange provision is a loophole that exclusively benefits those fortunate enough to own investment property. However, real property advocates such as NAR counter that repeal or cutback of the provision would harm economic growth and job creation.

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