Tax Reform

Congressional Action Needed

- Congressional Republicans have promised the first comprehensive tax reform bill in more than 30 years.
- Members of Congress and their staffs need to be reminded that tax reform must not dilute the current real estate tax provisions vital to the housing market and the economy.
- Reform ideas that repeal or weaken tax incentives to encourage homeownership must be rejected. We need tax reform, but it must first do no harm.

Congressional Actions To Date

- No tax reform legislation has been introduced in the current Congress.
- Tax reform proposals discussed to date would lower tax rates and raise the standard deduction but would pay for these changes by scaling back existing real estate tax provisions.
- Proposals that limit itemized deductions — even if not directly changing rules applicable to mortgage interest — could have serious negative consequences for homeowners.

What To Tell Your Representatives And Senators

- **Homeowners Must Be Treated Fairly in Tax Reform**
  - Middle-income homeowners could be worse off under proposals that limit tax incentives for homeownership. Analysis from PricewaterhouseCoopers (PwC) of a blueprint-like tax reform plan shows that home-owning families with incomes between $50,000 – $200,000 would face average *tax hikes* of $815 in the year after enactment while non-homeowners in the same income range would enjoy average annual *tax cuts* of $516.
  - Homeowners already pay 83 percent of all federal income taxes, and this share would go even higher under similar reform proposals. Homeowners should not have to pay a higher share of taxes because of tax reform.
- **We Must Reverse the Decline in First-time Homebuyers**
  - The tax code historically has encouraged homeownership. Proposals that limit interest and property tax deductibility would reverse this course.
  - The number of first-time homebuyers is coming off an all-time low and in 2016 the homeownership rate was at a 50-year low.
  - Homeownership provides social benefits to communities, increasing neighborhood stability and community involvement. America must continue to encourage homeownership.
- **We Cannot Afford Another Housing Crash**
  - Proposals limiting tax incentives for homeownership would cause home values everywhere to plunge. Estimates provided by PwC show that values could fall in the short run by more than 10 percent if a blueprint-like tax reform plan were enacted. The drop could be even larger in high-cost areas. It may take years for home values to rebound from such a significant decrease.
  - With this size of a dive in values, homeowners with relatively small amounts of equity would again see their mortgages go under water, finding they owe more than what their home is worth. For many, this will lead to defaults, foreclosures or short sales, creating havoc for families, neighborhoods and communities.
  - The home is the most valuable asset for most owners. Millions of families have built equity for years with the hope of using it to help pay for retirement or college for children. Many of these dreams would evaporate.
- **Like-Kind Exchanges Must Be Preserved**
  - The Section 1031 provision encourages 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.

Issue Background

Since its inception, our income tax system has recognized the favorable effects of homeownership for families, communities and society by incentivizing homebuyers with tax benefits. The result is a home-owning society that is the envy of the world. However, tax reform plans now being discussed threaten to decimate or even wipe out the tax benefits of owning a home for 95 percent of American families. In addition to almost doubling the standard deduction, these plans would outright repeal the deduction for property taxes while gutting the Mortgage Interest Deduction (MID) for all but the richest. Ironically, a hollow shell of the MID would stay on the books, allowing proponents of this type of tax reform to emptily boast that the deduction has been preserved.

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.
- **NAR responds** 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.
- **NAR responds** that repealing the property tax deduction would unfairly cause double taxation of the same income.
- **Some reformers believe** that eliminating itemized deductions would greatly simplify the tax system.
- **Advocates for homeownership counter** that the small reduction in complexity achieved by raising the standard deduction would come at too high of a price — the loss of tax incentives for owning a home and the resultant harm to the housing market, communities and the economy.
- **Critics argue** that the like-kind exchange is a loophole that exclusively benefits those fortunate enough to own investment property.
- **Real property advocates counter** that repeal or cutback of the provision would harm economic growth and job creation.

National Flood Insurance Program

Congressional Action Needed

- Authority for the National Flood Insurance Program (NFIP) expires on September 30, 2017.
- Urge Congress to pass a multiyear reauthorization with needed private market reforms to avoid adding uncertainty to real estate markets.

Congressional Actions To Date

- House Financial Services Subcommittee Chair Sean Duffy (R-WI) is now drafting an NFIP reauthorization bill that includes mapping, mitigation and private market reforms; the Senate is waiting on the House bill.
- Senators Heller (R-NV) and Tester (D-MT) and Reps. Ross (R-FL) and Castor (D-FL) have reintroduced the **"Flood Insurance Market Parity and Modernization Act"** (S. 563/H.R. 1422) to reduce barriers to private flood insurance.

What To Tell Your Representatives And Senators

Long-term Reauthorization Is Critical

- Don't let NFIP lapse.
- Each lapse costs 40,000 property sales per month.
- Without reauthorization, NFIP cannot issue or renew policies in 22,000 communities where flood insurance is required for a mortgage.

Accurate Flood Maps Are Essential

- NFIP should use modern mapping technology to produce building-specific risk assessments.
- Currently, property owners bear the burden of amending the maps to remove low-risk buildings from the floodplain.
- Map amendments require property owners to buy 25,000 land surveys each year at $500 each.
- The current method of flood mapping and amendment is inefficient. States are using the more effective light detection and ranging (LiDAR) to collect the data for whole neighborhoods at once.

Risk Mitigation Keeps Rates Affordable

- The best way to keep NFIP rates reasonable is to reduce the risk.
- Elevating a property by two feet can cut flood insurance premiums by as much as two-thirds.
- U.S. government spends $1.4 billion a year on grants to property owners to repair flood damage.
- Mitigating, elevating or relocating these properties would save taxpayers $4 for every $1 spent.
- Currently, property owners cannot access mitigation grant dollars until after the property floods despite it being more cost effective to elevate or relocate beforehand.

Private Market Options Must Be Included

- Pass the **"Flood Insurance Market Parity and Modernization Act"** (S. 563/H.R. 1422), which was unanimously adopted (419-0) by the House last year.
- NFIP premiums are based on national averages, so half of policyholders pay too much and half pay too little in premiums.
- Enabling consumers to meet federal requirements with a private plan offers an alternative to overpriced NFIP policies.
- There is a considerable and growing private market that is offering better coverage at a lower cost than the NFIP.

Issue Background

The NFIP was created to provide incentives for communities to rebuild to higher standards and steer development away from flood zones. In exchange, communities gain access to flood maps, mitigation assistance and subsidized insurance to prepay for future damage and recover more quickly from flooding. However, the program was never designed to absorb the catastrophic losses of the last decade including Katrina (2005), Sandy (2008) and Baton Rouge (2016). As a result, NFIP has borrowed $25 billion from the Treasury and is making interest-only payments of $400 million a year.

The NFIP was last up for reauthorization in 2008. There were 18 short-term extensions and a two-month shutdown before Congress reauthorized the program in 2012.

Opposing/Supporting Viewpoints

- **NFIP critics argue** that the federal government should not be in the business of flood insurance and it is time to privatize the NFIP. **NFIP supporters** respond that the private market cannot guarantee access to affordable flood insurance for all 5 million NFIP policies.
- **Flood mapping critics say** "scrap the maps" and let the private sector do it. **Mapping advocates say** that the current maps are developed by the private sector and without them, communities, lenders and property owners could not determine where to build, lend or buy.
- **Private market critics believe** that private insurers will "cherry pick" the low-risk properties from NFIP. **NFIP supporters counter** that the private market is targeting high-risk, subsidized properties that are net revenue losers for the NFIP.
- **Mitigation critics argue** that taxpayer dollars should not be invested in flood-prone properties. **Advocates note** that U.S. taxpayers are already spending billions on repairing flooded properties and elevating or relocating those properties would be more cost effective.

Protect Sustainable Homeownership

Congressional Action Needed

- Responsibly reform the secondary mortgage market to ensure that the qualified borrowers have access to safe, affordable mortgage financing.
- Ban the use of mortgage guarantee fees (g-fees) to offset the cost of legislation unrelated to housing.
- Ensure that loans used to pay for energy efficiency improvements are subject to consumer protection laws.

Congressional Actions To Date

- No significant housing finance reform legislation has been introduced in the 115th Congress.
- H.R. 916 (Sanford, R-SC; Sherman, D-CA), the **"Risk Management and Homeownership Stability Act,"** prohibits the use of g-fees as offsets for government spending.
- S. 838 (Cotton, R-AR) and H.R. 1958 (Royce, R-CA; Sherman, D-CA), both entitled the **"Protecting Americans from Credit Entanglements Act of 2017,"** extend consumer disclosures to Property Assessed Clean Energy (PACE) loans.

What To Tell Your Representatives And Senators

- **Responsibly Reform Our Nation's Secondary Mortgage Market**
  - Reform of our housing finance system is required, as the current conservatorship of Fannie Mae and Freddie Mac is unsustainable.
  - Do not dismantle these entities without identifying a viable replacement or omit an explicit federal guarantee. These components are critical to safeguard the 30-year, fixed-rate mortgage and ensure families are not shut out of homeownership.
- **Ban the Use of Guarantee Fees as a Congressional Piggybank**
  - Freddie Mac and Fannie Mae charge lenders g-fees to guarantee the payment of principal and interest on mortgage-backed securities (MBS).
  - G-fees are passed on to consumers in the form of higher interest rates.
  - In recent years, Congress has proposed increasing g-fees to pay for other governmental spending such as tax cuts or transportation spending.
  - It is wrong to tax a subset of middle-class Americans to cover unrelated federal spending.
  - Strongly oppose the use of g-fees for any use other than housing.
- **PACE (Property Assessed Clean Energy) Loans Should Not Hurt the Very Homeowners They Aim to Help**
  - Programs that allow homeowners to improve the energy efficiency of their homes and reduce their energy costs should be encouraged.
  - PACE loans provide funds for such improvements. However, consumers are unable to make prudent housing decisions due to the lack of proper consumer disclosures.
  - PACE loans and other energy efficiency lending programs should be subject to the same consumer disclosure laws that apply to mortgages.

Issue Background

Homeownership has always been a cornerstone of our nation and differentiates the U.S. from many countries around the world. Fiscal constraints have left lawmakers struggling to balance budgets and improve our economy. But there are critical programs that encourage homeownership—still the American dream. Failure to responsibly reform the secondary mortgage market, limit costs imposed on homeowners, ensure proper loan disclosures, and fund necessary system upgrades for federal housing programs hurts the very fabric and underpinnings of our society.

Opposing/Supporting Viewpoints

- **Critics believe** that Fannie Mae and Freddie Mac should not be involved in the mortgage market. Rather, they believe free market competition will provide better pricing and access to credit for consumers and businesses.
- **Supporters will respond** that a purely private mortgage market may provide these benefits, but only for a select few.
- **Critics argue** that all sources of revenue are needed to lower the budget deficit.
- **Supporters respond** that diverting g-fee revenue undermines the safety and soundness of the U.S. housing market, and deficit reduction should not be done on the backs of middle-class homebuyers.
- **Critics argue** that problems with PACE loans are overstated and are outweighed by enhanced energy efficiency and lower utility bills.
- **Supporters respond** that there are homeowners with PACE loans who are in trouble because they were not given the full details of the terms of their PACE loans.

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