Tax Reform

Congressional Action Needed

- Congressional Republicans and President Trump 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.
- Proposals 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 $50K-$200K 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 a reduction in values of this size, 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.

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