

## REAL ESTATE-BASED TAX REFORM PRINCIPLES AND GUIDELINES

Tax reform proposals generally fall into two categories: income tax models and consumption tax models. The features of those models vary, so not every principle below would apply to every proposal. The National Association of Realtors® believes that a workable tax system should:

### Acquisition

- Treat home ownership as investment, and not as consumption.
- Encourage savings and tax-based incentives for home purchases.
- Eliminate penalties for using savings for home purchases.
- Treat services associated with the purchase of real estate as part of the investment costs of the transaction, and not tax those services.

### Holding Period

- Preserve mortgage interest deduction benefits.
- Treat debt financing for owners of investment property as a business expense.
- Provide cost recovery rules that reflect a viable economic life for real estate investment for both owners and tenants.
- Allow netting of income from real estate activities against other income streams.

### Disposition

- Maintain a meaningful tax differential between ordinary income and gain from sales of capital assets.
- Apply capital gains provisions equally among all investments, including real estate.
- Tax only true economic gain.
- Defer recognition of gain on disposition of all *investment* real estate and/or trade or business real estate until reinvestment ceases.
- ***Provide substantial or enhanced exclusions from taxation for gain on the sale of a principal residence.***
- Preserve loss carry-forward principles.
- Treat services associated with the sale of real estate as part of the investment costs of the transaction, and not tax those services.

### Real Estate Operations

- Preserve independent contractor status for real estate professionals.
- Preserve (or establish) the principle that ordinary and necessary business expenses, including interest, should be deductible under an income tax model, and nontaxable under a consumption tax model.

### **Real Estate Production**

- **Provide incentives for capital formation, construction and rehabilitation in housing markets. Such incentives would include credits for the production and operation of low-income rental housing and credits for the production or rehabilitation of housing that qualified low-income individuals could purchase.**

### Transition

- Provide transition rules to preserve owner equity and eliminate adverse effects on real estate assets in service at the time of enactment.