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REALTOR®

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November 10, 2017

U.S. House of Representatives
Washington, DC 20515

Dear Representaive:

On behalf of the 1.3 million members of the National Association of REALTORS® (NAR), I want to express the Association's strong opposition to H.R. 1, "The Tax Cuts and Jobs Act" as currently drafted. NAR supports tax reform's goal to spur greater economic growth, but REALTORS® believe this bill would push the housing sector, which represents a sixth of the economy, in the opposite direction.

Moreover, H.R. 1 would reverse a century's worth of tax policy that has recognized the value of homeownership to American middle-class wealth creation, strong and stable communities, and as a driver of our nation's economy. Homeownership is not a special interest, it is our common interest, yet this legislation would place the American Dream further out of reach for millions of Americans at a time when our homeownership rate is at a 50 year low. In short, this bill is a serious step in the wrong direction.

The overall effect of this legislation would be to batter homeownership in general, today and in the future, while also raising taxes directly on millions of homeowners.

H.R. 1 would eviscerate the current-law tax incentives for purchasing and owning a home for all but a small percentage of Americans (6 percent, according to the Joint Committee on Taxation). By nearly doubling the standard deduction while eliminating most itemized deductions, the bill would destroy or at least cripple the incentive value of the mortgage interest deduction (MID) for the great majority of current and prospective homebuyers, and sap the incentive value of the property tax deduction for millions more.

The direct result of these changes would be a plunge in home values across America in excess of 10 percent, and likely more in higher cost areas. Provisions in the bill that limit the deductibility of interest on new mortgage loans to $500,000, cap property tax deductibility at $10,000 for those who can still itemize, eliminate the deduction altogether for second homes, and restrict the utility of the exclusion of gain on the sale of a home would exacerbate the effect. Furthermore, many of these changes are not indexed for inflation, increasing the pain on more and more homeowners over time.

NAR's research indicates that the average first-time homebuyer makes a down payment of less than 10 percent, meaning that millions of owners of recently-purchased homes would go "under water" on their mortgages, and they would owe more than the homes are worth. This, of course, could lead to devastating results for families that must sell, as well as damage neighborhoods, communities, and the economy itself.

The hard-won equity of millions more homeowners could be ravaged as well. Parents planning to use the value of their homes to help finance the higher education costs of children could find their resources shot, and baby-boomer homeowners nearing retirement who hoped to use their home's equity to pay for a portion of their retirement may have to delay or revise their plans.

The bottom line is that for tax purposes, owning a home would make less financial sense than renting for the great majority of Americans. This would reverse more than a century of pro-homeownership tax policy and result in untold negative economic and social implications.

<u>While this tax reform legislation is being promoted as a tax cut for middle-income families, the reality is that millions of middle-class homeowners would immediately face tax increases, while those who see a tax cut will see significantly less tax relief if they own a home than if they are a renter.</u>

For example, consider the "typical family of four" making $59,000 a year touted as an example of middle-class tax relief delivered by the bill by proponents of the plan. The family is renting a home, based on the facts presented, and is to receive a tax cut of $1,182 the first year after enactment. What is not highlighted, however, is that if this family owned a home with a typical mortgage for their income level, the tax savings would be only $761, a drop of 36 percent.

This may seem a minor difference to some, but the difference grows quickly as income rises. Consider again this same "typical family of four," but this time assign them a median *family* income of $73,000 rather than the median *household* income of $59,000 as per the Ways and Means example. In this case, the renting family receives a tax cut of $1,478 under the bill, but the home owning family would get a refund of just $674, less than half what the same family would receive as renters.

Finally, looking at this same family, but with an income of $120,000, as renters, they would receive a tax cut under H.R. 1 of $3,408. However, as homeowners with a typical mortgage in a typical average-cost state, they would have a *tax increase* of $226. This hidden "homeowners penalty" would be an astounding $3,634. Further, the Tax Cuts and Jobs Act not only eliminates the current tax advantages of homeownership, and thus discourages homeownership for many, it would actually encourage renting by allowing investors in residential property to continue to be eligible for full deductions of all interest and property taxes.

This legislation would also penalize larger families, many of whom are homeowners. By repealing the personal and dependency exemptions, families lose the tax value of each exemption ($4,150 for 2018) multiplied by the applicable tax rate. While H.R. 1 does offer a $600 increase in the per child tax credit as well as the new $300 family flexibility credit for adults, larger families, those with older children, and families in the 25 percent tax bracket, would often be left behind.

For example, a family in the 25 percent tax bracket with three children, one of whom is over age 16, could lose big under the switch from exemptions to credits under the Tax Cuts and Jobs Act. Their personal and dependency exemptions under current law total $20,750, and these would be worth a total of $5,188 at the 25 percent rate. However, the amount of increased value from the higher child credits and the Family Flexibility Credits would only sum to $1,800 (increased child credit of $600 x 2, plus $300 credit for each parent). This increase in tax of $3,388 would only be exacerbated if a family had more children, and especially if one or more of the dependent children were older than age 16.

To make things worse, the relatively small tax cuts that many middle-class homeowners receive from this proposal would vanish after just a few years. Based on the CBO's June forecast of inflation, income growth, and 10-year Treasury rates, coupled with the expiration of the family flexibility credit, most middle class families would see their modest tax cuts transform to tax increases under the plan compared to current law after five years. NAR does not believe vanishing tax cuts, coupled with vanishing home equity, is a formula for growing our economy.

Homeowners currently pay 83 percent of all Federal income taxes. This percentage is likely to increase significantly under the Tax Cuts and Jobs Act. At the same time, long standing federal tax policy that recognizes the importance of homeownership to our nation would be eliminated for all but a fortunate few. NAR cannot support these changes because REALTORS® know that tax reform can be better than this. A tax reform bill that is projected to add $1.5 trillion to our national debt should produce very few losers. Unfortunately, it appears America's homeowners and owner-occupied real estate in general are by far the largest losers in this legislation.

Rather than ram through a bill that has seen minimal public debate, and risk consequences lawmakers have not fully thought through, on behalf of our 1.3 million members and 74 million American homeowners, our members hope you will instead work with stakeholders to construct a bill that recognizes the important role housing plays in our economy.

Sincerely,

Elizabeth J. Mendenhall
2018 President, National Association of REALTORS®