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Jamie Gregory, Deputy Chief Lobbyist

500 New Jersey Ave., NW
Washington, DC 20001-2020
Ph. 202-383-1194
WWW.NAR.REALTOR

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United States Senate
Washington, DC 20515

Dear Senator:

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 "The Tax Cuts and Jobs Act," which the Senate Committee on Finance approved last week. While NAR supports tax reform's goal to spur greater economic growth, REALTORS® believe this bill would push the housing sector, which represents a sixth of the economy, in the opposite direction.

Moreover, this bill 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 tax reform effort 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.

The Tax Cuts and Jobs Act would eviscerate the current-law tax incentives for purchasing and owning a home for all but a small percentage of Americans (5 percent, according to the Joint Committee on Taxation staff.) By nearly doubling the standard deduction while eliminating most itemized deductions, the legislation 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. The provision in the bill that would restrict the use of the exclusion of gain on the sale of a principal residence would exacerbate the effect.

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 would owe more than the home is worth. This, of course, could lead to devastating results for families that must sell, and also damage to 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 scale down 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.

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 could see significantly less tax relief if they own a home than if they are a renter.

For example, consider the Smiths, a "typical family of four" earning $73,000 a year touted as an example of middle-class tax relief delivered by the bill by proponents of the plan. The Smiths are renting a home, based on the facts presented, and are projected to receive a tax cut of $2,059 the first year after enactment. What is not highlighted, however, is that if the Smiths had recently purchased a home costing $250,000, the tax savings would be only $1,255, a drop of nearly 40 percent.

This may seem to be less than earth-shattering to some, but the difference grows quickly as income rises. For example, consider again this same family of four but this time assign them an income of $108,000 and suppose they paid $400,000 for their home. In this case, the Smith family as renters receives a tax cut of $2,549 under the bill, but as a home owning family, they would get a tax cut of just $261, only about a tenth of the tax relief they would receive as renters.

Also, consider the example of two single individuals. Let's call the first one Sara and assume she makes $48,000 per year as a firefighter. Under the Finance Committee bill, she would receive a tax cut compared with current law of $997 if she were a renter. However, if she had recently purchased a home appropriate to her income level (costing $170,000), her tax cut would be just $186, or 81 percent lower.

The second single individual is an accountant named Marissa. She makes $78,000 per year. Under the bill passed by the Finance Committee, Marissa would get a tax cut of $2,032 as a non-homeowner. But, had she purchased a home costing $260,000, the tax reform bill would deliver her a tax increase of $1,161, or an astounding $3,193 difference, simply because she is a home buyer.

Because the current law encourages buying and owning a home, and these incentives are largely removed from the Senate's tax reform bill, many home-owning families will be very poorly treated in the bill, either through significantly smaller tax cuts or by actual tax increases. 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 more renting in our society by allowing investors in residential property to continue to be eligible for full deductions of all interest and property taxes. This does not appear to be a conscious policy decision of the tax reform plan, but it certainly would be the very unfortunate result.

Larger families, many of whom are homeowners, are also discriminated against in this version of tax reform. 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 the bill does increase the per child tax credit significantly, families with older children would come out behind because they would lose the value of the exemption but would receive no tax credit if the child is over age 17.

Further, the legislation's new restrictions on qualifying for the exclusion for gain on the sale of a principal residence would be highly unfair to homeowners, especially younger ones, and would harm economic growth. Many first-time homebuyers purchase smaller homes or condos. Long before five years have passed (the new minimum time for owning and occupying the home under the bill), many of these homebuyers will have added children to their family, thus necessitating a move to a larger home. Taxing the gain from such sales discourages family formation and homeownership, and is needlessly punitive, arbitrary, and unfair. Moreover, many homeowners move for employment reasons after a year or two. This change would discourage many from purchasing a home and inhibit workforce mobility for those who already have. In both cases, the change would detract from economic growth, not promote it.

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, and should, be better than this. A tax reform bill that is designed to propel economic growth should not target one of its most important sectors for losses. Nor should it reverse a century-old policy of encouraging homeownership and all the positive economic and societal advantages that come with it. 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

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