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November 29, 2017

United States Senate
Washington, D.C. 20510

Dear Senator:

On behalf of the 1.3 million members of the National Association of REALTORS® (NAR), I want to share with you one more reason for you to oppose or vote to modify “The Tax Cuts and Jobs Act,” which is currently before the Senate.

The legislation, as approved by the Committee on Finance, includes a provision to subject royalty income derived from the licensing of a tax-exempt organization’s name or logo to the Unrelated Business Income Tax. Under the present law, royalty income is treated as passive income, which is generally not taxed. Indeed, royalties closely resemble other types of passive income for tax-exempt organizations, including rent, interest, and dividends. Where there is little or no service provided by the tax-exempt organization in return for the royalty payments, we see little or no distinction between royalties and these other types of income, and certainly nothing to warrant a change in the tax treatment of these payments.

Royalties are a significant source of non-dues revenue for many tax-exempt organizations, including NAR. As such, they are reinvested to cover the costs of education, skills training, research, and many other activities directly related to the mission of the organization. Subjecting these royalties, which are passive in nature, to income taxation would result in a serious impact on the financial well-being of thousands of these organizations, and affect their ability to carry out their exempt functions.

The estimated \$2 billion in new revenue this provision is projected to exact from associations and other members of the tax-exempt community over the next ten years will either have to be replaced by increases in dues by members, or by cuts in member benefits that are currently being provided. Either way, the provision would represent a de facto tax increase on every member of most trade associations, and also on the various beneficiaries of other tax-exempt organizations.

Since there is no compelling policy reason for such a change, surely this provision goes against the spirit and purpose of The Tax Cuts and Jobs Act and of good tax reform generally.

We urge you to consider the drawbacks this change would bring upon thousands of your constituents, and as the Senate shapes the bill through the amendment process, find a way to replace or remove this onerous provision.

Sincerely,

A handwritten signature in black ink that reads "Elizabeth J. Mendenhall".

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



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