



NATIONAL ASSOCIATION OF REALTORS®

*The Voice For Real Estate®*

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Honorable Bill Frist, Majority Leader  
United States Senate  
Washington, D. C. 20510

Dear Senator Frist:

We read with great interest about your recent solicitation for volunteer Senators to form a Working Group on Tax Reform. The NATIONAL ASSOCIATION OF REALTORS® has followed tax reform debates in recent years with great interest. Our nation's homeowners and those still seeking to purchase their first home have a significant stake in any tax reform debate. The NATIONAL ASSOCIATION OF REALTORS® (NAR) stands ready to lend its assistance to your Working Group. We believe that our substantial experience in this arena can help the Working Group avoid the pitfalls of previous initiatives.

A major pitfall of previous tax reform efforts is that they have focused on problems that do not exist as they attempted to turn huge sectors of the economy topsy-turvy. NAR was particularly chagrined at one vote taken during Senate floor debate on H.R. 2, the Jobs and Growth Tax Relief Reconciliation Act. Senator Specter offered an amendment expressing the Sense of the Senate that:

The Senate Finance Committee and the Joint Economic Committee should undertake a comprehensive analysis of simplification including flat tax proposals, including appropriate hearings and consider legislation providing for a flat tax.

On behalf of more than 900,000 members of the NATIONAL ASSOCIATION OF REALTORS®, I express unequivocal opposition to this directive. The flat tax has been debated and studied repeatedly for more than twenty years under both Republican and Democratic administrations. Each time, the public has rejected the concept once they have understood that a flat tax would require them to forego important deductions, including those for charitable contributions, mortgage interest, property tax, state income tax and medical expenses.

Among the *least* complex aspects of the tax system is the tax rates. Most taxpayers simply derive their tax liability from published tables. Polls undertaken by financial planners suggest that few Americans, unless they pay no tax at all or are in the top bracket, are even aware of either their tax bracket or their effective tax rate. Similarly, among the *least* complex tasks

involved in filing tax returns is determining the amount of one's deductions for the items listed above. The 1098 and 1099 reporting regimes implemented during the 1980's simply require a taxpayer to transfer a number from the report to the tax return. The flat tax would eliminate all these deductions in the name of fairness and simplicity, when, in fact, they are among the most easily understood facets of the system.

What *is* complex about the tax system is the elaborate system of income limits, phase-ins, phase-outs and sunsets that have crept into the Code in recent years to satisfy budget requirements. Similarly, a series of provisions that benefit families, students and small businesses have overlapping and inconsistent definitions and differing qualification standards.

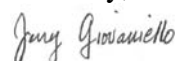
The Joint Committee on Taxation released a blueprint for simplification in 2001. Many recommendations in that report have broad support and would enhance the current tax system. Enacting those recommendations would be far less radical than simply throwing out the whole tax system. For better or worse, our economy is interconnected with the tax system. System-wide reforms would inevitably cause significant economic dislocation. For example, in 1996, the last time the flat tax was debated in the public arena, research showed that enactment of a flat tax would cause the value of homes nationwide to decline by 15%. In high cost states, the decline would have been as much as 25%.

The flat tax has demonstrable adverse effects on housing. Housing has been the one bright spot in an otherwise sluggish economy for the past three years. We urge Congress to do nothing that would put this sector of the economy in jeopardy.

Opponents of the flat tax are often labeled "special interests." We reject that categorization. More than two-thirds of American households now own their own home. Homeownership is not a "special" interest. It is the basis of family wealth in our society and the goal of almost all Americans.

Accordingly NAR vigorously opposes the flat tax. We were disappointed that Senator Specter's resolution received 70 votes. Rather, we would urge Senators to enact substantive simplification rather than debate the flat tax one more time.

Sincerely,



Jerry Giovaniello,  
Sr. VP/Government Affairs

cc: All Senators

