August 15, 2024

The Honorable Ron Estes
Chair
Tax Team on U.S. Innovation
House Committee on Ways & Means
Washington, DC 20515

The Honorable Michelle Steel
Vice Chair
Tax Team on U.S. Innovation
House Committee on Ways & Means
Washington, DC 20515

Dear Chairman Estes and Vice Chair Van Steel:

On behalf of the 1.5 million members of the National Association of REALTORS®, I write to share our acute concern about the lack of availability and affordability of housing in our Nation and to recommend specific tax reform ideas to alleviate this plight that are within the purview of the Tax Team on U.S. Innovation.

Based on various studies, the United States faces a critical shortage of as many as 7 million homes. Over the past several years, America's supply problem has worsened, and housing has grown increasingly expensive and out of reach for more and more Americans. As champions serving at the front of the housing cause, REALTORS® can attest that most areas of the Nation are in a housing crisis.

According to NAR's most recent Housing Affordability Index, the ability of typical families to afford to purchase a median-price home has continued to decline throughout the Nation. The latest index, for May 2024, was 93.1, compared with 99.6 one year ago. An index below 100 means that a family with a median income had less than the income required to afford a median-priced home.

A June 2024 study by the Joint Center for Housing Studies of Harvard University concluded that the U.S. home price index is 47 percent higher than it was in 2020, with the median sales price of homes at about five times the median household income. In the rental market, meanwhile, rents are up 26 percent since 2020 and are rising in most markets. Also, the number of people experiencing homelessness reached a record high in 2023.

Obviously, there is no one simple "magic bullet" solution to our housing crisis. Rather, policymakers at the national, state, and local levels must pursue changes in different areas to increase the affordability and availability of homes. NAR believes Congress can begin to turn around the housing crisis by including in the Internal Revenue Code various measures designed to improve the supply of homes and facilitate increased homeownership possibilities for Americans.

More specific to the topic of U.S. innovation and the need for housing for those involved with it, we believe that the following legislative proposals deserve the Work Group's study and consideration:

- The bipartisan **Revitalizing Downtowns and Main Streets Act** (H.R. 9002) would encourage the development of new housing units by incentivizing the conversion of under-used commercial buildings to residential properties with a tax credit for qualified property conversion expenditures. Many commercial properties can be adapted to better suit the needs of the new economy and of communities and to create job opportunities, including adding multifamily and affordable housing as well as mixed-use spaces.
- The bipartisan **Workforce Housing Tax Credit Act** (H.R. 6686) would create a workforce housing tax credit, similar to the Low-Income Housing Tax Credit, which would be allocated by state Housing Finance Agencies and targeted to "middle-income" families, who earn too much to qualify for low-income affordable housing and not enough to afford housing near where they work without assistance.
- An innovative proposal (not yet introduced) to increase the supply of starter homes by reducing the capital gains tax rate for small investors of rental houses who sell to owner-occupants instead of another landlord. If provided a higher after-tax return by selling to a first-time buyer, many selling investors would move them to the top of the list of bidders, thus making it much easier for them to buy a home.

Also, because the price of homes has increased so rapidly, many prospective home buyers are having trouble saving enough money for the necessary down payment and to afford the monthly mortgage payments, even if more properties were available to purchase. To assist them, we believe that tax reform should also include:

- Tax incentives to make it easier for those saving for a first home to amass the funds necessary for a sufficient down payment. This could include tax-preferred savings plans similar to Individual Retirement Accounts or 529 educational accounts where funds can grow faster and possibly be matched by contributions from parents, employers, or others.
- A home ownership tax credit for those who do not itemize and are thus not able to utilize tax incentives such as the mortgage interest and property tax deductions. Unlike the situation for most of the past century, the vast majority of today's prospective home buyers get no assistance from the current tax law in buying a home.

In addition, we believe it is imperative, as part of tax reform, to preserve and even strengthen 1031 like-kind exchanges. Section 1031, which has been a critical part of the Internal Revenue Code since 1921, has been instrumental in creating more rental housing units for the families of American workers. The majority of properties exchanged are held by small investors, and in 89% of the exchanges, clients invested significant additional capital into the property, creating jobs and increasing economic growth. Like-kind exchanges accelerate economic growth by preventing properties from languishing. They put real estate into the hands of new owners with the time, resources, and desire to restore and improve them, which invigorates the economy and creates jobs. NAR strongly believes this provision must be maintained.

As you know, the Tax Cuts and Jobs Act of 2017 (TCJA) included a vital provision designed to level the tax playing field for non-corporate taxpayers, such as limited liability companies (LLCs), partnerships, S corporations, and sole proprietorships. A great many start-up manufacturing firms are organized in one of these forms and thus received a much-needed injection of tax equality when the TCJA implemented Section 199A, which created a 20% deduction from qualified business income for self-employed entrepreneurs and owners of pass-through businesses. This new deduction helped to equalize the tax rate between large corporations and small businesses and independent contractors. With this provision set to expire at the end of 2025, NAR strongly believes it must be extended. An expiration of this provision would disproportionately harm America's small business owners and negatively impact crucial sectors of the economy, including manufacturing.

Finally, we entreat the work group to consider the harmful effects of the $10,000 limit on the state and local tax (SALT) deduction on both small businesses and on families struggling to afford to purchase a home. The simple move of eliminating the marriage penalty for taxpayers filing jointly, who have the same maximum deduction as single filers, would help current and prospective homeowners who are facing increased property tax payments that have gone up simply because the value of their home is higher. The SALT cap is also not indexed for inflation, so it becomes more onerous each year. Thus, we believe that at the very least, tax reform should remove the unfair marriage penalty and index any cap for future inflation.

NAR is committed to working with the Tax Team on U.S. Innovation and with the full Ways and Means Committee to create innovative ways that our Federal tax law can help ensure the American Dream of homeownership remains within reach for millions who are presently at risk of not attaining it. The tax reform discussions that the Congress has already begun and that will continue into next year represent an ideal time to take the first steps to turning around the housing crisis.

Sincerely,

Kevin M Sears

2024 President, National Association of REALTORS®