PRESERVE REAL ESTATE-RELATED TAX POLICIES

Congressional Action Needed:

Lawmakers must remember the vital role that real estate tax provisions play in the nation's housing markets and economy. Several tax provisions vital to distressed homeowners and commercial real estate have expired and need to be extended. Tax reform is important but should first do no harm.

Congressional Actions to Date:

- No viable comprehensive tax reform legislation has been introduced, but draft House (Camp) and Senate (Baucus) reform proposals are circulating.
- Though tax reform is unlikely to move in 2014, the ideas presented in these draft plans could end up in feasible bills in the future, unless discredited now.
- Several important temporary tax provisions expired in 2013. The Senate Finance Committee has passed a bill to retroactively restore them. Full Senate and House approval is expected but is not likely until the "lame duck" session after the November elections.

What to Tell Your Representatives and Senators:

- Mortgage Debt Forgiveness Tax Relief: A provision that waives income tax on mortgage debt forgiven in a short sale or a workout for principal residences expired at the end of 2013. If distressed homeowners have to pay tax on "phantom income" from forgiven debt, many will not go through with short sales or workouts and will go into foreclosure. This is not only unfair but harms families, neighborhoods and communities. Co-Sponsor H.R 2994 (House) or S. 1187 (Senate) and ask Congressional Leaders to move the bill quickly.
- Mortgage Interest Deduction (MID): For more than a century, the MID has helped make homeownership more affordable for families of moderate means, strengthening our communities. Oppose efforts to eliminate or weaken the mortgage interest deduction for primary and second homes. The House draft would eliminate the MID for 95% of homeowners.
- Property Tax Deduction: Property taxes paid are not properly considered "income" for income tax purposes. Eliminating the deduction would result in double taxation. Oppose eliminating property tax deductions. The House draft would eliminate the property tax deduction for ALL homeowners.
- Like-Kind Exchanges: This longstanding provision allows investment real estate to be exchanged for property of a like-kind on a tax-deferred basis. Exchanges are a key part of a high percentage of investment real estate transactions; if repealed, fewer redevelopment projects will go forward, resulting in fewer new jobs. The like-kind exchange provision provides liquidity to an illiquid asset, and repealing it would harm economic growth. The House and Senate drafts would both eliminate Like-Kind Exchanges.

Issue Background:

While tax reform is on the "back burner" now, the ideas introduced by the House and Senate tax reform draft plans will be reconsidered when Congress gets serious about moving tax reform. It is important Congress understands now that reforms that harm real estate are nonstarters. In the meantime, there also are urgent provisions that have expired that Congress should extend now.

Expired Provisions Must Be Reinstated

- Despite significant market recovery, more than 6 million homeowners (13 percent of all homeowners with a mortgage) are still "under water."
- There are still 1.1 million homes in the process of foreclosure. This is down from the peak of just over 2 million, but way above the average of 430,000 from the pre-housing crisis period of between 2000 and 2006.
- Mortgage debt forgiveness tax relief is vital for these families. Failure to act will force more homeowners into foreclosure, destabilizing communities and housing values.

Real Estate-Related Provisions Must Be Preserved

- More than 75 percent of homeowners utilize the mortgage interest deduction at some point over the period they own a home.
- For many homeowners, property tax paid is their largest deduction — one that continues long after a mortgage is paid off.
- The value of both mortgage interest and property tax deductions is capitalized into house prices. Eliminating the MID would cause on average a 15 percent drop in home values; decreasing the deductions, even for a limited group, would compress the value of all homes
- Repealing the like-kind exchange provision would be counterproductive and result in the loss of jobs and economic growth and very little gain in revenue.

Opposing Viewpoints

- Critics will argue that a simpler tax code with lower rates is better for housing than the current system, and the mortgage interest deduction most benefits high-income homeowners who do not need help buying a home.
- Deductions for property taxes subsidize high taxes and encourage bloated governments.
- The mortgage debt forgiveness tax relief provision was to be a temporary provision and has outlived its purpose.
- The like-kind exchange provision is a loophole that needlessly benefits those fortunate enough to own investment property.

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