Real Estate-Related Tax Policies are Vital to the Economy

Congressional Action Needed:

- Though tax reform is not likely to be enacted in 2015, lawmakers and their staffs must be educated about the vital role that real estate tax provisions play in the nation's housing markets and economy. Congress should oppose proposals that would weaken or repeal them. Tax reform is important, but should first do no harm.
- The Mortgage Forgiveness Tax Relief Act expired on December 31, 2014, and needs to be extended.

Congressional Actions To Date:

- No viable comprehensive tax reform legislation has been introduced, but leaders of the tax committees (House Ways and Means and Senate Finance) are looking for opportunities to move tax reform bills this year.
- NAR-supported legislation to extend mortgage debt relief provisions for two years was introduced as H.R. 1002 (Reed, R-NY; Rangel, D-NY) and S. 608 (Stabenow, D-MI; Heller, R-NV), the "Mortgage Forgiveness Tax Relief Act of 2015."

What To Tell Your Representatives And Senators:

- **Mortgage Interest Deduction (MID)**: Since 1913, 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.
- **Property Tax Deduction:** Property taxes paid are not properly considered "income" for income tax purposes. Eliminating the deduction would result in double taxation. Stand firm in opposing the repeal of property tax deductions.
- **Mortgage Debt Forgiveness Tax Relief:** A provision that exempts from income tax the amount of mortgage debt forgiven in a principal residence short sale or a workout expired at the end of 2014. 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. Ask Representatives to cosponsor H.R. 1002 (Reed, R-NY; Rangel, D-NY) and Senators to cosponsor S. 608 (Stabenow, D-MI; Heller, R-NV).
- **Like-Kind Exchanges:** Since 1921, the Section 1031 provision has allowed investment real estate to be exchanged for property of a like-kind on a tax-deferred basis. Exchanges are essential in investment and commercial real estate transactions; if repealed, fewer redevelopment projects will go forward, resulting in fewer new jobs.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. Repealing it would harm economic growth.

Issue Background:

While enactment of tax reform has little chance this year, the ideas promoted by House and Senate tax leaders will be on the table when Congress gets serious about moving tax reform. Members of Congress need to understand now that tax proposals that harm real estate are nonstarters. In the meantime, there is an urgent real estate tax provision that has expired that Congress should extend now.

Housing Tax Incentives 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, the property tax deduction is substantial, and one that continues long after a mortgage is paid off.
- The value of both mortgage interest and property tax deductions is imbedded into house prices. Eliminating the MID alone would cause on average an 11 percent drop in home values; decreasing the deduction, even for a limited group, would compress the value of all homes.

Like-Kind Exchanges Must Be Retained

- Repealing the like-kind exchange provision would be counterproductive and result in the loss of jobs and economic growth with little gain in revenue.
- Two separate tax reform plans last year (Baucus and Camp) included repeal of Section 1031, and the President's budget this year again proposed a major cutback. Tax reform plans that include repeal of like-kind exchanges weaken the provision by making it more likely Congress will go along when tax reform becomes more serious.

Expired Provision On Tax Relief For Mortgage Debt Forgiven Must Be Reinstated

- Despite the recent recovery, 10 percent of all homeowners with a mortgage are still "under water."
- Today, there are still nearly 1 million homes in the process of foreclosure. This is down from the high point of over 2 million, but still far above the 430,000 average of before the housing crisis.
- Mortgage debt forgiveness tax relief is vital for these families.

Opposing Viewpoints:

- Critics will argue that a simpler tax code with lower rates is better for housing than the current system, and the MID most benefits high-income homeowners who do not need help buying a home. Supporters will respond that limiting or repealing current housing tax incentives would hurt the housing sector and unfairly harm homeowners, who already pay 80–90 percent of all federal income tax.
- Deductions for property taxes subsidize high taxes and encourage bloated governments. In response, supporters will say repealing property taxes would cause double taxation.
- The mortgage debt forgiveness tax relief provision was to be a temporary provision and has outlived its purpose. However, proponents will point out that when millions of homeowners are still at risk of having to pay tax on phantom income, not extending this provision would be very poor policy.
- The like-kind exchange provision is a loophole that needlessly benefits those fortunate enough to own investment property. However, NAR and other real estate advocates point out that repeal or cutback of the provision would harm economic growth and job creation.

500 New Jersey Avenue, NW • Washington, DC 20001-2020 • 800.874.6500 • www.REALTOR.org

NATIONAL ASSOCIATION *of* REALTORS®