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February 24, 2014

Dear Representative:

On behalf of the one million members of the NATIONAL ASSOCIATION OF REALTORS®, I am writing to urge you to consider the vital role that real estate, whether residential, commercial, or investment property, plays in the American economy and our way of life.

While enactment of comprehensive tax reform may be difficult in an election year, ideas about ways to reform or improve our tax system are always worthy of discussion and consideration, even if legislative action must wait for a future Congress. Indeed, the reform of anything as important as the U.S. system of taxation deserves long-term deliberation.

As you and your colleagues continue the long and vital conversation about what a reformed and modernized tax system should include, we ask that you please remember that tax incentives matter, both to individual families in your districts, and to the business enterprises and industries that provide the jobs and opportunities upon which we all depend.

Revenue neutral tax reform that broadens the tax base and lowers rates should be considered, but we believe it must be balanced with an eye towards preserving the most effective provisions that American families, investors, and enterprises have utilized for a century, and upon which our economy depends.

Our current tax system contains many provisions that encourage real estate ownership and investment, and have contributed greatly to economic growth, job creation, homeownership, and a more stable society. Each provision deserves careful consideration, not only for its positive contributions, but in light of what negative effects its repeal or alteration might cause. The first rule in tax reform should be "Do No Harm."

Toward this aim, we ask that in tax reform you support preserving, and in some cases enhancing, the following provisions:

- **Mortgage Interest and Real Property Tax Deductions.** These deductions have been part of our tax system since its introduction over 100 years ago and are among the most popular and widely utilized in the tax code. The values of these tax benefits are both directly and indirectly embedded in home prices, and home prices will fall significantly if the deductions are eliminated. Moreover, these deductions primarily benefit the middle class. Ninety-one percent of the value of the mortgage interest deduction and seventy-five percent of the value of the property tax deduction goes to taxpayers earning less than $200,000 per year.

- **Exclusion of Capital Gain on Sale of Principal Residence.** Real estate is the most widely-held category of assets that American families own, and for the great majority, it is the family home that constitutes their real estate. Not only is the current-law exclusion a major simplification measure for millions of taxpayers, it also greatly enhances their saving toward retirement. The exclusion of capital gains on the sale of a principal residence should be preserved and the limits indexed for inflation.

- **Exclusion for Mortgage Debt Cancellation.** Even though the housing market has greatly improved, many areas of the nation are still staggering from a devastating multi-year decline, and there are too many homeowners who find themselves in foreclosure, completing a short-sale, or attempting to have an existing loan restructured. The recently-expired provision is needed to keep American families from having to pay income tax on "phantom income" at a time when they are least likely to have the means to pay it. The exclusion is an important anti-recessionary measure and deserves to be made a permanent part of the tax law.

- **Depreciation of Real Estate.** Investment in real estate is a cornerstone of our economy, and plays a critical role in growth and job creation. In order to enhance the ability of the economy to deliver its best possible results, the depreciation periods of commercial and residential buildings should be shortened to reflect the true economic lives of these assets. Also, the recently-expired provision allowing faster write-off for leasehold improvements should be extended on a permanent basis.

- **Deferral of Gain on Like-kind Exchanges.** Our current tax law has long recognized that when an investor in real estate exchanges one property for another of like kind, economically, nothing has changed. Indeed, allowing capital to flow more freely among investments is critical to economic growth and job creation. Provisions that allow for the deferral of gain on the like-kind exchange of real property is vital to economic growth and should be maintained.

Our nation's real estate markets are finally on the road to recovery. One of the surest ways to halt this recovery is to create uncertainty about whether the current tax treatment will be eliminated or impaired for real estate owners and investors. Congress must be mindful of the broad impact that the overnight or retroactive elimination of long-standing and widely utilized tax provisions may have on our nation's economy.

As you contemplate the best way to reform our ailing tax system, I hope you will keep in mind the vital role real estate plays in our economy, and that tax incentives make a difference in job creation and economic vitality. Now is the time for you to be a voice for America's seventy-five million homeowners, as well as the tens of millions of Americans who are directly or indirectly invested in commercial real estate!

Sincerely,

Steve Brown

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2014 President, National Association of REALTORS®