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March 10, 2017

The Honorable Steven Mnuchin
Secretary of Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

Dear Mr. Secretary:

On behalf of the more than 1.2 million members of the National Association of REALTORS®, I am writing to congratulate you on your confirmation as the 77th Secretary of the Treasury. We are looking forward to working with you on many issues of great importance pertaining to real estate ownership and housing for Americans.

One particular issue that sits near the top of the agenda for both the Trump Administration and Congress is tax reform. We were pleased to see from recent media reports that, in connection with tax reform, you have pledged to leave "the mortgage interest deduction as is."

However, as gratifying as it is that you have expressed the promise to safeguard the mortgage interest deduction (MID), I want to share with you some concerns we have with the House Republican tax reform "Blueprint," which also assures that the MID will be preserved. Despite this, however, the Blueprint would in fact have the consequences of nullifying not only the MID, but also other tax incentives of owning a home for the great majority of Americans who now are, or who aspire to become, homeowners.

Specifically, the Blueprint calls for the standard deduction to be almost doubled from its current levels. The plan also includes the repeal of the deduction for state and local taxes, as well as the elimination of most other itemized deductions. Either of these monumental changes alone would marginalize the value of the current-law tax incentives for owning a home. Unfortunately, the combination of these two revisions would cripple the incentive effect of the federal tax law for all but the most affluent.

We anticipate two potentially devastating problems in the aftermath of these modifications. First, the impact on the first-time homebuyer could be enormous. For many, the current-law tax incentives make the crucial difference in being able to afford to enter the ranks of homeowners. At a time when the rate of first-time home-buying is well below the average of the past few decades, this could be particularly debilitating for the housing industry and the entire economy.

Second, the decimation of the mortgage interest and real property tax deductions would very likely cause a significant plunge in the value of all houses. At a time when the housing sector has not fully recovered from its thrashing during the Great Recession, this drop, even if temporary, could be calamitous. Millions of homeowners could again wake up to learn that the value of their largest financial asset has dived below the amount of debt that is owed on it.

The combination of these two problems could have further ramifications that could produce a vicious spiral. Should home values drop due to the decrease in value of homeownership incentives, revenues to state and local governments would surely follow suit because of lower assessed property values. Further, public pressure on these same governments to lower tax rates because these tax payments would no longer be deductible could greatly exacerbate the situation. The overall result could be a disastrous downturn in the quality of many neighborhoods and communities, and especially our most vulnerable ones.

NAR realizes that a driving principle behind the Blueprint is a desire to modify our tax system to supercharge economic growth. We acknowledge that many features of the plan are likely to lead in this direction. However, it will take years for the full growth effects of these changes to permeate through the economy and for these results to offset the deleterious short- to mid-range consequences mentioned above. And many homeowners, particularly those who are middle-aged or older and are planning to use the equity in their home for retirement or to pay for the education of their children, simply will not have time to wait for the recovery.

Of course, we do not yet know if the tax reform plan that President Trump intends to release will have these same features of the Blueprint that produce the effects we fear. However, we note that the plan the President promoted as a candidate included an even larger increase in the standard deduction than does the Blueprint, along with the elimination of all itemized deductions except the MID and the deduction for charitable contributions. Thus, we are very concerned that the Administration's tax reform plan may produce the same or even worse negative incentive effects on current and aspiring homeowners as would the Blueprint.

We believe that our tax system stands in great need of positive changes, and we commend you and the President for being willing to take on the difficult task of leadership in this worthy effort. But we also strongly urge that in so doing, we not discard the features of our tax system that make America a homeownership society.

Sincerely,

William E. Brown
2017 President, National Association of REALTORS®