

Preserve Homeownership Tax Policies

CONGRESSIONAL ACTION NEEDED

As Congress considers proposals to reform the federal tax code, lawmakers should consider the vital role that real estate tax provisions play in the nation's housing markets and economy, as well as the financial well-being of Americans and their families.

CONGRESSIONAL ACTIONS TO DATE

- No comprehensive tax reform legislation has been formally considered.
- The House Ways and Means and Senate Finance Committees have held hearings on various components of the tax code, including hearings to review itemized deductions.
- The Ways and Means Committee created Working Groups to review tax code provisions that impact various sectors. NAR has met with the Real Estate, Small Business and Retirement Working Groups. Also, the Finance Committee has begun informal weekly meetings to consider various tax reform options.

WHAT TO TELL YOUR REPRESENTATIVES AND SENATORS

Continue to support these important tax provisions for residential real estate. As real estate markets continue to recover, Congress must first do no harm.

- **Mortgage Interest Deduction:** For 100 years, the MID has helped make homeownership more affordable for families of moderate means, strengthening our communities. Oppose efforts to change or eliminate the mortgage interest deduction for primary and second homes.
- **Property Tax Deduction:** Property taxes paid are properly not considered "income" that should be subject to federal income tax. Congress should not tax "income" that doesn't exist and oppose elimination of the deduction for property taxes.
- **Capital Gains Exclusion for Sale of Principal Residence:** Individuals can exclude the first \$250,000 (and married couples the first \$500,000) of gain from the sale of their principal residence from capital gains tax. This provision allows homeowners to build equity and save for retirement. Congress should maintain it.

ISSUE BACKGROUND

Both the House and Senate are considering different plans to reform the federal tax code. As a result, "everything is on the table" including various real estate tax benefits. While no formal comprehensive tax reform legislation has been introduced, it is important Congress understands the vital role these provisions play in our nation's economy.

Real Estate Related Provisions Must Be Preserved

- More than 75% of homeowners utilize the mortgage interest deduction over the period they own their home.
- For many homeowners, property taxes are their largest tax deduction, one that continues even after a mortgage is paid off.
- The value of both mortgage interest and property tax deductions is capitalized into house prices. Eliminating the mortgage interest deduction, for example, would cause on average a 15% decline in value of homes. Decreasing the deductions, even for a limited group, compresses the value of all homes.
- Further declines in home values will harm housing markets, and stymie our nascent housing recovery.
- Reducing the capital gains exclusion thresholds would harm household retirement savings and reduce financial flexibility.