# NAR Issue Brief
## Tax Reform 2017 Talking Points

**Tax Reform is Important but Must Not Erase the Tax Benefits of Homeownership**

**Issue Background:** Since its inception over a century ago, the U.S. income tax system has recognized the positive effects of homeownership for families, communities, and society by rewarding home buyers with tax benefits. The result has been a home-owning society that is, in many respects, the envy of the world. However, a kind of tax reform plan already being considered in Washington is inadvertently threatening to decimate or even wipe out the tax benefits of owning a home for 95 percent of American families. Ironically, the proponents of this type of tax reform pledge to protect the Mortgage Interest Deduction (MID) by retaining it as one of just two itemized deductions that would not be repealed.

**The downside of tax simplicity.**

- Simplification of the tax code would eliminate the deduction for state and local taxes paid, including property taxes.
- The standard deduction would be doubled or tripled, greatly diminishing the number of taxpayers claiming deductions for MID.
- These two changes would largely erase the tax benefits of owning a home for the great majority – buying would offer little or no more tax benefit than renting.

**Threats to the tax benefits of homeownership.**

- Massive increases to the standard deduction reduce the relevance of itemized deductions.
- Taxpayers claim the higher of the actual itemized deductions or the standard deduction.
- Elimination of most other itemized deductions, such as the deduction for state and local taxes paid, would greatly exacerbate the effect of a higher standard deduction.

**Why are REALTORS® worried about a higher standard deduction?**

- A small increase in the standard deduction might be justified and even a good idea.
- However, doubling or tripling the amount, while at the same time eliminating most itemized deductions, would hollow out the incentive effect of the mortgage interest deduction.
- For most Americans, there would no longer be a strong tax incentive to purchase a home, rather than to rent one.
- This would upset 100-plus years of our tax system offering a meaningful incentive to become a homeowner, and could have all sorts of unintended negative consequences.

**What negative consequences might result from this kind of tax reform?**

- The tax incentive to buy a home has its first and largest effect on the first-time homebuyer.
- Having a strong and appropriate tax incentive to assist first time buyers has been instrumental in getting millions of homeowners into their first house.
- Losing the tax benefits of owning a home would have a significant and negative effect on the price of houses.
- Most homeowners could lose equity and thus family savings. Millions of homes could go underwater, meaning the home is no longer worth as much as is owed on its mortgage.

**But wouldn't the economic growth effect of lower tax rates offset these effects?**

- Possibly, but over the short and mid-range time frame, there could be moderate to severe economic consequences to the housing sector and the entire economy, not to mention negative effects on communities and families everywhere.

**Can you offer an example of the impact of a higher standard deduction on a first-time homebuyer?**

- Hypothetical single woman living in Colorado
- Current renter.
- Wants to buy her first home – a condo.
- Saved a 5 percent down payment on a $263,000 unit.
- At 4% mortgage rate the monthly payment would be $1,193.
- Current law provides tax incentives to buy the condo totaling over $3,300 for 2016.
- Under a tax reform plan that almost doubles the standard deduction and repeals all itemized deduction except the MID and charitable contributions, her tax benefit would drop to almost nothing.
- The cost of buying suddenly skyrockets by as much as $263 per month.

**Under tax reform, tax rates are going down. Wouldn't the first-time buyer pay less tax**?

- Not necessarily. Tax reform would produce winners and losers, but many homeowners would find themselves paying more tax dollars to Uncle Sam, while still losing the tax incentive to buy a home.
- The tax effect on individuals of tax reform is important, but so is the impact on society and families of our country moving from a one where homeownership is encouraged toward possibly becoming more of a nation of mostly renters.

**Does this mean that REALTORS® will oppose tax reform?**

- Not at all – our current tax system <u>is</u> too complex, and tax reform should simplify it.
- However, tax reform must not discard the features of the system that provide the bedrock for homeownership in America.