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Realtors Raise Last-Minute Red Flags Over Tax Bill

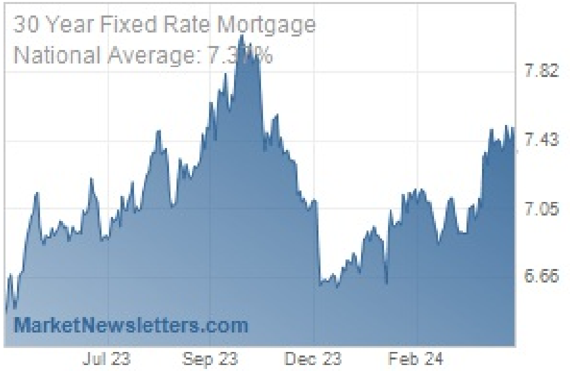
Realtors are **expressing concern** over three measures that exist in either the House or the Senate versions of the Republican tax cut bill and have sent a letter to Orrin Hatch (R-UT) and Kevin Brady (R-TX), chairs of the Senate Banking and House Ways and Means Committees respectively, about these issues. The letter was sent as a conference committee is about to begin discussions of changes to the bills that will allow passage of a single version by both side of the Congress. Signed by, current National Association of Realtors (NAR) President Elizabeth Mendenhall, the letter stresses the important of homeownership to the U.S. economy and says the Congress needs to keep in mind where their decisions "can create a tremendously better outcome, not only for current and prospective homeowners, but for communities and the economy."

The first concern is a revision to a **capital gains exclusion** for the sale of a principal residence which was added to the tax code in 1997. Under that provision a homeowner can exclude from capital gains taxes a profit of $250,000 (or $500,000 for a couple filing jointly) if the home has been owner occupied for two of the most recent five years preceding the sale. Not only does this provision shelter a substantial amount of housing wealth, it also eliminated the need for homeowners to maintain tenure-long records of money spent on capital improvements to the home. The bill under consideration would change the period of occupancy to five of the last eight years and add income limits for eligibility.

Mendenhall said the existing provision is simple, straightforward, and greatly encourages the **buildup of household wealth**. Increasing the timeline "will create hardship to millions and unfairly penalize them by changing the rules in the middle of the game." Experienced Realtors, she said, know that most people sell their homes because of legitimate and pressing needs such as a job-related move or a change in family size. "Further, the income limits in the House bill would punish many in higher-cost areas of the nation simply because they happen to live where incomes, and the cost of living, are above the average."

In addition, some portion of those affected would be less likely to sell their homes, exacerbating the **low inventory problems** currently hampering many markets. She said the association's research shows that as much as 22 percent of recent sales were by homeowners who had owned their homes for two to five years. "If just one in five of these affected homeowners choose to forgo a trade-up purchase of another home, GDP could decline by more than

National Average Mortgage Rates



	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	7.37%	-0.04	0.00
15 Yr. Fixed	6.82%	-0.02	0.00
30 Yr. FHA	6.82%	-0.06	0.00
30 Yr. Jumbo	7.55%	-0.05	0.00
5/1 ARM	7.42%	-0.08	0.00
Freddie Mac			
30 Yr. Fixed	7.22%	-0.22	0.00
15 Yr. Fixed	6.47%	-0.29	0.00
Mortgage Bankers Assoc.			
30 Yr. Fixed	7.24%	+0.11	0.66
15 Yr. Fixed	6.75%	+0.11	0.64
30 Yr. FHA	7.01%	+0.11	0.94
30 Yr. Jumbo	7.45%	+0.05	0.56
5/1 ARM	6.64%	+0.12	0.87

Rates as of: 5/2

Recent Housing Data

		Value	Change
Mortgage Apps	Apr 24	196.7	-2.67%
Building Permits	Mar	1.46M	-3.95%
Housing Starts	Mar	1.32M	-13.15%
New Home Sales	Mar	693K	+4.68%
Pending Home Sales	Feb	75.6	+1.75%
Existing Home Sales	Feb	3.97M	-0.75%

		Value	Change
Builder Confidence	Mar	51	+6.25%

$7 billion per year," the letter says.

The second area of concern is a proposed reduction of the cap on **mortgage interest deductibility**. Currently that limit is $1 million which the House bill would cut in half. This, Mendenhall says, would have an immediate and very negative impact on many high cost markets. "Home buyers in these areas often have little choice but to take out a very large mortgage, simply because finding a residence priced below the limit that meets their needs is practically impossible." That this cap lacks an index for future inflation guarantees the limit "will pinch more and harder over time." NAR estimates that in 20 years fully a third of the U.S. housing stock will be valued over $500,000. "Responsible tax reform should not unfairly punish more and more taxpayers simply because of inflation."

Mendenhall also urged that the conference, as it seeks ways to make the limits on the deductibility of **state and local taxes** (SALT) less "unsavory," also include income or sales taxes in the mix. There is a concern that if property taxes are the only ones that will be deductible, she said, it will encourage state and local governments to shift more of the tax burden onto real property owners.

NAR advocates for two other areas that appear in the Senate bill. One is a provision which would adjust the depreciable lives of real property. NAR says this would lower barriers to investment in real estate and thus generate more economic growth. The Senate's version for pass-through entities better matches the tax rate reduction that corporations receive under the bill than does the House bill, and would be less likely to incentivize Realtors, brokers, and developers to convert to corporate status.

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