AMERICAN LAND TITLE ASSOCIATION

April 15, 2015

The Honorable Orrin Hatch
Chairman
Senate Committee on Finance
215 Dirksen Senate Building
Washington, DC 20510

The Honorable Ron Wyden
Ranking Member
Senate Committee on Finance
215 Dirksen Senate Building
Washington, DC 20510

Dear Chairman Hatch and Ranking Member Wyden:

Homeownership and investment in real estate is the primary financial asset for most Americans and small business owners. As the Senate Finance Committee's working groups begin researching and negotiating tax reform proposals, the American Land Title Association[1] (ALTA) and its 5,500 members urge you and your colleagues to remember the crucial role real estate tax provisions play in middle-class family and small business financial stability and prosperity.

Homeownership has long been the primary method by which American middle-class families have built personal capital. In 2011, home equity accounted for 25 percent of all family assets in the United States, and Americans held a total of $10.1 trillion in their homes, up $1.5 trillion (17 percent) from 2000.[2] Tax provisions supporting homeownership are a critical part of a strong housing economy. These provisions include:

- **Mortgage Interest and Real Property Tax Deductions**. These deductions encourage families to achieve the American dream of homeownership. The provisions allow taxpayers to deduct mortgage interest on up to $1 million worth of mortgage debt and real property taxes paid to state and local government from their adjusted gross income. Roughly 90 percent of those who claim the deductions are middle or lower income.[3] On average, in 2012, the tax benefits for home mortgage interest and real property tax deductions were approximately 3 percent of incomes of the $10,000 - $20,000 income bracket, while they

[1] The American Land Title Association, founded in 1907, is a national trade association and voice of the real estate settlement services, abstract and title insurance industry. ALTA represents more than 5,500 member companies. ALTA members operate in every county in the United States to search, review and insure land titles to protect home buyers and mortgage lenders who invest in real estate. ALTA members include title insurance companies, title agents, independent abstracters, title searchers and attorneys, ranging from small, one-county operations to large national title insurers.

[2] Alfred Gottschalck, et. al. "Household Wealth in the U.S.: 2000 to 2011," United States Census Bureau, Wealth and Asset Ownership release. Available at: http://www.census.gov/people/wealth/files/Wealth%20Highlights%202011%20Revised%207-3-14.pdf

[3] Joint Committee on Taxation, "Present Law and Background Relating to Tax Treatment of Household Debt." July 11, 2011. https://www.jct.gov/publications.html?func=startdown&id=3802.

accounted for less than 2 percent of incomes of those in the $75,000 - $100,000 income bracket.[4]

- **Exclusion of Capital Gains Tax on the Sale of Principal Residence.** One quarter of U.S. assets are held in the form of home equity. An individual's ability to exclude from taxes up to $250,000 ($500,000 for joint filers) of gain realized on the sale or exchange of their home strengthens the value of this asset. The elimination of the capital gains tax exclusion on the sale of a principal residence would create a disincentive to sell homes, which was the case prior to 1997. Consequently, the costs associated with changing homes for work and retirement would rise for the average American family.

Virtually every American business owns or leases real estate. Altering the tax provisions affecting commercial real estate would negatively impact the entire U.S. economy. The commercial and residential real estate sectors account for nearly 12 million direct jobs across 45 industries, accounting for approximately 11 percent of private sector employment. These 45 industries comprise over 7.5 million small and large businesses, which constituted approximately one-quarter of total private establishments. These businesses paid $534 billion in wages and contributed over $3.3 trillion of economic activity, which amounted to over 11 percent of the private sector totals in 2010. Consequently, the negative economic impact resulting from a change to commercial real estate tax provisions will be passed down to every consumer through lower housing prices, higher inflation, decreased employment and lower household income. This impact will result in a less prosperous and competitive United States. To protect our competitive economic advantage, we endorse the following tax provisions:

- **Deferral of Tax on Gain for Like-Kind Exchanges.** Our current tax code allows sellers of business use and investment properties, including commercial, industrial, residential rental, and farm properties to defer any capital gains tax on the sale of that property if the seller reinvests the gain in a different, like-kind property within 180 days (a Section 1031 exchange). By delaying taxation, Section 1031 exchanges allow investors to reinvest capital in assets that better meet current business needs, fostering further economic growth and job creation. Section 1031 and other provisions allowing the deferral of gains should be maintained.

- **Section 179 and Bonus Depreciation Provisions.** Many ALTA member companies benefit significantly from Section 179 and bonus depreciation provisions. These components of the tax code allow our members to more quickly recover typical investment costs, including expenses associated with updating software systems and replacing computer equipment. At a time when the economy is starting to emerge from a deep recession and many businesses are just beginning to regain their footing, these provisions play an important role in ensuring that companies can continue to invest and grow.

Continued economic recovery in the real estate sector is vital to the continued recovery of the American economy. As you conduct your work to reform the nation's tax code, we urge you to avoid changes that would negatively affect Americans' investment in housing and real estate.

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[4] *Id.*

ALTA looks forward to working with the Committee, and we thank you for your consideration of these critically important priorities. If you have questions, please do not hesitate to contact Justin Ailes, ALTA's vice president of government affairs, at (202) 261-2937.

Sincerely,

Michelle Korsmo
Chief Executive Officer