

AGENDA



2023 NAR NXT

FEDERAL TAXATION COMMITTEE

Tuesday, November 14, 2023

1:30pm – 4:00pm

CHAIR: ERIN STUMPF (CA)

VICE CHAIR: ASHLEY ENDRIS (MS)

COMMITTEE LIAISON: ANDREW MAHOWALD (SD)

STAFF EXECUTIVE: EVAN LIDDIARD (DC)

PURPOSE

To develop policy on all matters of federal taxation affecting real estate; to coordinate with the Business Issues Policy Committee in developing policy on those tax matters that affect the business operations of REALTORS®; and to provide guidance to NAR staff on lobbying strategies and positions.

1:30pm – 1:40pm

I. Call to Order: *Erin Stumpf, Chair and Ashley Endris, Vice Chair*

A. Welcome and Introductions

B. NAR Ownership Disclosure and Conflict of Interest Policy

C. NAR Presidential RPAC Challenge Status

1:40pm – 1:42pm

II. Approval of Previous Meeting's Minutes: *Erin Stumpf, Chair*

[EXHIBIT](#) (Minutes from May 8, 2023 Legislative Meeting)

1:42pm – 1:45pm

III. Introduction of Today's Agenda - *Erin Stumpf, Chair*

1:45pm – 2:15pm

IV. Update on Tax Legislation and Tax Reform Priority Discussion - *Evan Liddiard, Staff Executive*

2:15pm – 2:45pm

V. Political Outlook: The Wide Range of Possibilities for Tax Changes Between Now and 2025

NAR Lobbyists: *Vijay Yadlapati, Matt Stross, Sydney Barron, Ryan Rusbult*

2:45pm – 3:00pm

VI. Committee Discussion: Are We Ready for the Future?

3:00pm – 3:25pm

VII. Old Business: Consideration of recommendation of Large Investors in Rental Homes Work Group: Revised motion to support tax credit for long-tenured owners of single-family homes to encourage them to sell to another owner-occupant.

To support policies that provide a temporary tax credit to long-tenured owners of single-family homes to encourage them to sell them to another owner-occupant.

Rationale: The national shortage of housing is a top problem in most real estate markets in America today. This shortage has many causes, but one is that long-tenured homeowners are no longer selling their homes at the volume they did in the past. Recent data show that the lifecycle flow of housing needs has been disrupted for older homeowners as to downsizing or moving into retirement facilities. The median age of homeowners has increased markedly as has the proportion of owners who have lived in the same home for more than two decades. As older owners stay in their homes longer, these residences do not turn over to a younger generation of prospective homeowners, thus limiting an important and traditional source of supply. One study shows a temporary credit could bring as many as 640,000 homes to the market.

3:25pm – 3:55pm

VIII. New Business: Consideration of recommendations of Historical Policy Motions Work Group:

A. Estate and Gift Tax Clarifying Motion

Estate and Gift Tax Clarifying Motion

- To clarify that NAR supports repealing the federal estate and gift tax regime and retaining the step-up in basis to fair market value for all inherited assets.
- If repeal of the estate and gift tax regime is not possible, NAR supports an estate and gift tax regime that:
 - provides for the step-up in basis for all inherited assets.
 - taxes all assets in an estate at the same rate, which rate is as low as possible but no higher than the tax rate for long-term capital gains.
 - provides an estate tax exemption no lower than that provided in the Tax Cuts and Jobs Act of 2017 (for 2023, \$12.92 million for individuals and \$25.84 million for married couples) and is indexed for inflation.
 - does not include a tax on unrealized gains upon a decedent's death.

Rationale: The Federal estate and gift tax regime has varied wildly over the past decades. As recently as 1997, the estate tax exemption was just \$600,000 per person and the top estate tax rate was 55 percent. The Economic Growth and Tax Relief Reconciliation Act (EGTRRA) of 2001 increased the exemption to \$3.5 million, reduced the rate to 45%, and put the estate tax on a path to repeal, which occurred, but only for the year 2010. From 2011 through 2017, the exemption was set at \$5 million per person and indexed for future inflation and the rate was set at 40%. The Tax Cuts and Jobs Act of 2017 temporarily doubled the exemption to an inflation-adjusted amount of almost \$11.2 million and subsequent adjustments have brought it to nearly \$13 million in 2023. However, current law provides for the exemption to revert to the \$5 million level (plus inflation adjustments) in 2026. Recently, the White House and some in Congress considered tax increases on higher-income and wealthier Americans, which included proposals to increase the estate tax, end the step-up in basis of inherited assets and/or tax unrealized capital gains at death. The estate tax negatively impacts real estate ownership, as would the loss of the step-up in basis of inherited real property. If the estate tax cannot be repealed, it should have as small an impact as possible. Further, the step-up in basis should not be changed nor should capital or other unrealized gains be taxed at death. NAR's Board of Directors approved six separate policy motions on the topic of estate and gift taxes from 1925 through 2021. Two of these policy motions were deemed to represent current policy by the Federal Taxation Committee (with the remaining ones deemed antiquated or superseded). However, the details of these two motions are confusing, overlapping, and include antiquated and

unnecessary references. This motion attempts to simplify and clarify the capital gains policy into one statement that is easier to understand.

B. Capital Gains and Recapture Clarifying Motion

Capital Gains and Recapture Clarifying Motion

- To clarify that NAR supports a federal capital gains tax regime which recognizes that a significant portion of capital gains are due to inflationary increases in assets values, and thus should not be taxed and that encourages the formation and turnover of capital. Further, NAR supports:
 - A differential between the tax rate on ordinary income and the tax rate on long-term capital gains, the rate of which should be substantially lower than the rate on ordinary income.
 - The recapture of depreciation upon the sale of real property at ordinary income rates, but only to the extent that depreciation claimed on the sold property exceeded straight-line depreciation.
 - A rate of tax on the amount of "unrecaptured section 1250 gain," (which is the portion of the gain on the sale of real property that represents the amount of straight-line depreciation taken over the life of the asset) that does not exceed the current rate of 25 percent.
 - Indexing the tax bases of capital assets to reduce the unfair taxation of inflationary gains and to better reflect true economic increases in the value of the assets.

Rationale: NAR's Board of Directors approved more than two dozen separate policy motions on the topic of capital gains taxation and recapture of depreciation from 1920 through 1996. Four of these policy motions were deemed to represent current policy by the Federal Taxation Committee (with the remaining ones deemed antiquated or superseded). However, the details of these four motions are confusing and overlapping. This motion attempts to simplify and clarify the capital gains policy into one statement that is easier to understand.

C. Demolition of Buildings Clarifying Motion

Demolition of Buildings Clarifying Motion

- To clarify that NAR supports removing a principal deterrent to the acquisition of property for voluntary demolition of obsolete structures by permitting the costs of demolition to be added to the basis of any new building constructed upon such land.

Rationale: NAR's Board of Directors approved a motion in 1961 that provided that NAR urges "Congress to remove a principal deterrent to the acquisition of property for voluntary demolition of obsolete structures by permitting the costs of demolition to be added to the basis of the improvements placed upon such land." The Federal Taxation Committee deemed this policy to be current but somewhat confusing. The change of the wording of the portion of the motion in italics above to "of any new building constructed" should clarify any confusion from the original motion.

3:55pm – 4:00pm

IX. Other Business and Announcements - Erin Stumpf, Chair and Ashley Endris, Vice Chair

4:00pm

X. Adjournment