# Kentucky REALTORS®
# Priorities for TAX REFORM

- **Protect mortgage interest and property tax deductions**
- **Oppose tax on services**
- **Support first time homebuyer incentives**

## The Opportunity for Tax Reform

- Kentucky's tax system is outdated and needs to be both modernized and streamlined so businesses can effectively compete in today's economy. Kentucky REALTORS®' overall goal for a better tax system is to increase state revenues through economic growth.

- As Governor Bevin and the General Assembly review the entire tax code, evaluating rates, exemptions, credits and incentives, it is important to understand how vital the current real estate tax provisions are to the housing market and the overall economy. Kentucky REALTORS® will strongly oppose policies that will negatively impact home sales and put homeownership out of reach.

- Home ownership is critical to our communities, economy and the quality of life in Kentucky. We need to keep the American Dream of home ownership accessible and affordable for all Kentuckians. A strong housing market is a cornerstone to a growing economy.

## Why Tax Reform is Important

- Nationally, real estate accounts for over 19 percent of America's gross domestic product, or more than $3 trillion in investment.

- For every 2 homes sold, one job is created. Every home purchase generates as much as $60,000 in economic activity.

- More than 75 percent of homeowners utilize the mortgage interest deduction during the period they own a home. For many homeowners, the property tax deduction is substantial and one that continues long after a mortgage is paid off.

## Why We Believe These Priorities Are So Important

- The value of both the mortgage interest (MID) and property tax deductions is imbedded into house prices. According to NAR data, eliminating the MID alone would cause, on average, an 11 percent drop in home values. Decreasing the deduction, even for a limited group, would compress the value of all homes.

- Limiting or removing the tax incentives of homeownership would not only rattle the economy, but would also weaken families, society, and undermine the American Dream.

- Applying the sales tax to real estate services (commercial and residential) is likely to reduce the demand for housing by effectively increasing the cost of purchasing a home. The total impact is based on several reinforcing effects: increased closing costs on the transfer of existing residential and non-residential property, and an increased cost of new single family and multifamily housing. This is a regressive tax and has the highest impact on those who can least afford it.

Homeownership levels are down. 2015 saw the lowest percentage of first-time home buyers for existing home sales since 2000. The rising costs of housing and crippling student loan debt appear to be impacting younger generations and their housing choices. Saving for a down payment and closing costs is very challenging in today's economy. According to the 2016 State of the Nation's Housing Report, released by the Harvard Joint Center for Housing Studies, the 2013 Survey of Consumer Finances indicates that 12 percent of renter households had no savings in transaction or retirement accounts or other financial instruments. Among the other 88 percent of renter households, the median value of all financial assets was just $3,000. By comparison, a 5 percent down payment on a median-priced existing home in 2015 was $11,100. Home buyer incentives provide an opportunity to save and grow funds for homeownership.

## Kentucky REALTORS®' Approach to Reform

- We believe that promoting home ownership by protecting the mortgage interest and property tax deductions is vital.

- We oppose taxes on services broadly and specifically that include real estate services (See ***Table 13: KY Real Estate Closing Taxes, By House Price*** documenting taxes on real estate services in a real estate transaction).

- We will actively support home buyer incentives. Examples are:
  - Homebuyer tax credits - create a state home buyer tax credit that is the same or of similar parameter to the federal Home Buyer Tax Credit implemented by the Kentucky Housing Corporation geared towards lower income households.
  - Home savings accounts similar to a college savings plan where contributions are after tax, no income limits, but grow tax free and withdrawals are tax free if used for qualified home expenses like a down payment and closing costs. Credit dollars can be deposited in home savings accounts.