

## New Tax Law Proposal Could Mean Big Changes to the American Dream

March 11, 2014 - In December we told you about a new bipartisan initiative to change US tax laws. One big issue that we had with the bill that was being discussed was that its author, Rep. Dave Camp (R-MI) was keeping its text a secret. Well, the secret is now out of the bag. If Camp's proposal was ever to become law, it would mean a dramatic shift to the American dream of home ownership; putting that goal out of reach for millions of people and would likely cause millions of others to question the wisdom of owning property.

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In short, Camp's proposal would pull the rug out from under homeowners. Its negative effects would be felt predominantly by middle class families. It's no wonder that he wanted to keep it secret.

The changes that Camp would make would include the following:

He would end all deductions for local property taxes. This means that homeowners would be paying a tax on tax-money that they have already paid out.

He would reduce the mortgage interest deduction from \$1 million to \$500,000 over a four year period. And the new rates would not be indexed for inflation. This means that over a period of years, what remains of it would become less and less valuable to homeowners.

He would change the capital gains exclusion for profits on the sale of a home. Right now, homeowners can take \$250,000 (\$500,000 for couples) of profit from the sale of their home every two years. Under Camp's proposal, the exclusion could only be taken every five years. Additionally, Camp would eliminate all capital gains exclusions for those making more than \$250,000 per year (\$500,000 for couples).

He would eliminate penalty-free IRA withdrawals to be used for down payments for first time homeowners.

The economic implications of the Camp proposal are tremendous. One of the primary indicators of how well the economy is doing is "new home starts." This is the number of new homes that have started construction by contractors. Every proposal in this bill dealing with real estate and homeownership is geared to reduce the number of new homes being built.

The domino effect here is that the number of construction jobs available throughout the United States would be reduced.

The bill is also designed in such a way that current homeowners would likely experience immediate and severe reductions in the value of their homes. These price reductions are likely to be prolonged and, in some markets, permanent. The bill actually sets the country up for another major downturn in the housing market. If you will recall from recent history, it was a downturn in housing that precipitated the Great Recession.

Ironically, Camp's bill proposes reinstating tax forgiveness on unpaid mortgage balances for those who would face foreclosure or a short sale. Foreclosures and short sales are a foreseeable consequence of these proposals and once again, all American taxpayers would be left to cover the costs associated with them.

Fortunately, Camp's bill has almost no chance of passing in an election year. Unfortunately, the fact that the bill is now being discussed at all in Washington is likely to mean that Congress will include some of Camp's proposals in future bills. This is an issue that we absolutely expect to see taken up by Congress sometime in 2015.

by Jim Malmberg

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