

Extend and Improve the Tax Cuts and Jobs Act

Issue Overview

The enactment of the Tax Cuts and Jobs Act (TCJA) has been transformative for the residential housing industry. Key changes include a lower rate structure; improved incentives for business investments; near-elimination of the individual alternative minimum tax; establishment of the 199A Qualified Business Income Deduction; reduced tax burdens from the estate tax; retention of the Low-Income Housing Tax Credit and private activity bonds; and other changes that improved the tax code for small businesses.

NAHB believes there are opportunities to build on the initial success of TCJA to improve the tax code for middle-class Americans and small businesses. We have included specific proposals to modernize the homeownership tax incentives, provide more resources for affordable rental housing and update older tax provisions.

Solutions

- Extend TCJA Provisions that Spur Economic Growth
 - Section 199A Qualified Business Income Deduction for Pass-Through Entities;
 - Individual marginal tax rates;
 - Capital gains rates;
 - Estate tax rates and exemptions;
 - Alternative minimum tax exemptions and phase-out; and,
 - Maintain the real estate exemption to the Section 163(j) limits on business interest deductibility, as small home builders rely on debt to finance their entire operation.
- Preserve Tax Provisions that Recognize the Unique Challenges of Residential Development
 - Section 460 Completed Contract Rules, which clarifies that new homes sales are taxed when completed and sold;
 - Section 1061 Carried Interest, which increases investment demand for multifamily real estate development projects;
 - Section 1031 Like Kind Exchanges, which allows property owners to balance their portfolios and incentivizes reinvestment into new real estate projects, increasing economic growth;
 - Section 179 Multifamily Rental Depreciation; and
 - Section 1411 Net Investment Income Tax, which is targeted to passive investors; NAHB opposes any expansion to include active investors.

- Make Improvements to the TCJA that Promote Homeownership
 - Adjust the state and local tax (SALT) limit for inflation and eliminate the marriage penalty;
 - Adjust the \$750,000 limit for inflation for acquisition debt under the mortgage interest deduction; and
 - Increase and adjust the Section 121 capital gains exclusion thresholds, which excludes up to \$250,000 per person from the gain of selling a primary residence, to reflect inflation (More Homes on the Market Act).
- Expand Housing Affordability Relief and Supply-Side Incentives
 - Convert the mortgage interest deduction into an ongoing homeownership tax credit that can be broadly claimed by middle-class households;
 - Provide additional resources for the Low-Income Housing Tax Credit (Affordable Housing Credit Improvement Act) to meet the demand for affordable rental housing;
 - Establish a tax credit to help finance the construction and preservation of rental housing affordable to middle-income families (Workforce Housing Tax Credit); and
 - Enact tax incentives for builders to produce affordable entry-level homes.
- Encourage Energy-Efficient New Homes
 - The Section 45L tax credit incentivizes technological advancements in home building, but changes made in the Inflation Reduction Act (IRA), including inserting prevailing wage requirements, undermined its purpose. The IRA changes should be rolled back to re-focus 45L on its intended purpose of encouraging energy-efficient new homes.