

# ***REAL ESTATE WEEKLY***

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## Are the rules of the game changing for real estate ownership?

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In early 2005 the Bush Administration announced the establishment of a bipartisan panel to recommend options to reform the tax code with a goal to make the tax law simpler, fairer, and to promote long term economic growth and the creation of jobs.

The Presidential Advisory Panel on Tax Reform recently released its recommendations. Among other changes, the panel is suggesting eliminating the personal mortgage

curtailed the deductions available to real estate investors, setting the stage for a major decline in real estate values that lasted for more than a decade.

Home values over the last five years have escalated dramatically, causing buyers to borrow more money and put less money down. Low interest rates and equity built up in their homes has also allowed many homeowners to borrow that equity to finance spending they might not otherwise have afforded. As a result, eliminating these deductions and rising

interest deduction on first and second homes, in lieu of giving a 15% credit of mortgage interest paid on primary homes. In addition, a \$1.1 million limit on mortgages eligible for the current tax break would shrink to the average regional price of housing, ranging from \$227,000 to \$412,000. They also proposed the elimination of the deduction for state and local taxes which includes property taxes paid.

Tax legislation can brutally effect the real estate industry. Just think back to 1986's enactment of the passive loss rules, which significantly

interest rates will hurt middle class families the most. Without the housing engine to drive the economy, property values and economic growth may be in danger of decline.

There is a long way to go before those recommendations can become law. Lets hope history does not repeat itself on this one. Aside from negative changes to real estate tax policy and excessive interest rate hikes, real estate values should likely sustain (albeit slower) appreciation from these levels and perhaps stabilize for a term with a soft landing. ■

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