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Real-estate tax policies: What would McCain and Obama do?

By Curtis Seltzer

BLUE GRASS, Va.—What are the real-estate tax policies of Senators McCain and Obama?

I'm not sure reliable answers are available. Campaign promises are preferences, not contractual obligations. Circumstances -- the economy, control of Congress, competing demands -- will shape what either wants to do as President as well as what is feasible. But mostly neither has said.

On fiscal policy, they share some positions. Both appear to like balanced budgets, pay as you go and deficit reduction, but both have proposed policy packages that would increase the national debt—McCain more than Obama.

Both urge tax cuts and spending as part of a post-election stimulus package now being worked up in Washington, but with different components and orientations.

McCain now supports continuing the Bush tax cuts that he opposed when they were enacted. Obama supports tax cuts for the majority of taxpayers and tax increases for the top five percent.

The tax positions that both candidates have taken in their stump speeches differ from the positions their campaign staffs and economic advisers advance.

Obama's stump-speech position indicates a policy that would generate an increase in after-tax income in 2009 for the bottom four quintiles, something less than six percent for the lowest 20 percent to something less than two percent for the fourth quintile. The top quintile in Obama's stump speech shows a drop in after-tax income of more than two percent. His stump-speech policies would lower after-tax income for the top one percent by about 9 percent and the top 0.10 percent by about 11 percent.

Obama's staff and advisers, however, say that his policies will raise after-tax income for every quintile, from a little more than six percent at the bottom to about two percent for the top quintile. Their positions show a drop in after-tax income of about one percent for the top one percent and about three percent for the top 0.10 percent.

McCain's stump speech also differs from his staff positions.

McCain's speech shows all quintiles gaining in after-tax income, from less than one percent in the bottom quintile to six percent in the top quintile. His stump speech shows the top one percent would gain more than eight percent after tax and the top 0.10 percent would gain almost ten percent after tax.

His staff position follows the same trend, but it shows a larger increase in after-tax income in all quintiles than his stump speech, with the top one percent getting an almost ten percent gain and the top 0.10 percent almost 12 percent.

These positions are compared in detail at www.taxpolicycenter.org. The non-partisan Tax Policy Center finds that both tax plans would

substantially increase the national debt over the next ten years—McCain by \$5 trillion, Obama by \$3.5 trillion. McCain would reduce taxes by nearly \$4.2 trillion, and Obama by \$2.9 trillion. While each spreads the tax burden differently, the general ideas of McCain and Obama would raise about the same amount of revenue.

Politicians change some of their positions over time as circumstances change. That's not flip-flopping, saying one thing here and another there. It's adapting.

Comparing the tax positions of McCain and Obama is somewhat unfair to McCain because he's been voting on national tax policy six times longer than Obama—in economic conditions that have changed significantly.

McCain opposed President Bush's \$1.35 trillion tax cut in 2001, one of two Senate Republicans to do so. He said at the time: "I can't in good conscience support a tax cut in which so many of the benefits go to the most fortunate among us at the expense of middle-class Americans who most need tax relief." McCain also opposed the \$350 billion Bush tax cuts in 2003. For those positions, Grover Norquist, the conservative anti-tax advocate, called McCain a "tax-increasing Bolshevik."

In the 2008 campaign, McCain advocates making both Bush tax cuts permanent and proposes additional cuts. Norquist now endorses McCain.

In the third debate with Obama, McCain said: "So let's not raise anybody's taxes, my friends, and make it be very clear to you I am not in favor of tax cuts for the wealthy." Both McCain's stump speech and advisers advocate tax cuts for everybody, including the wealthy.

McCain supported the recent \$700 billion Wall Street rescue, as did Obama, but McCain's position this spring was that "it is not the duty of government to bail out and reward those who act irresponsibly, whether they are big banks or small borrowers." (George F. Will, "McCain's Housing Restraint," Washington Post, April 6, 2008.) Of the two, Obama has been more consistent on taxes and spending over the last year or so.

Tax breaks benefit some groups at the expense of others who make up the difference.

The Congressional Joint Committee on Taxation in September, 2007 projected the cost of "federal tax expenditures" (tax breaks) for fiscal years 2007-2011.

The Big Three homeowner breaks are: 1) the deduction for mortgage interest on an owner-occupied residence was projected to cost \$79.9 billion in 2008; 2) the deduction for property taxes on owner-occupied residences, \$14.3 billion; and 3) exclusion of capital gains on the sale of owner-occupied residences, \$29.0 billion. ([Source](#))

Together, The Big Three came to an estimated \$119 billion in 2007, and the Joint Committee projected them to grow to about \$164 billion in 2011. McCain said that the "mortgage interest deduction should be left alone; it's embedded in the U.S. tax code." ([Realtor Magazine](#), September, 2008)

Both candidates appear to favor keeping all three "as is," though information is sparse on the deductibility of property tax and the capital-gains exclusion.

The Big Three only benefit those who itemize deductions. Itemization increases significantly as income rises. McCain is against a mortgage tax credit for families who don't itemize. Obama favors a ten percent "universal" mortgage credit for non-itemizers.

These deductions help many Americans. Bruce Hahn, President of the American Homeowners Grassroots Alliance, told me: "The mortgage-interest and real-estate tax deductions and the home-sale capital-gains exclusion encourage home ownership, which contribute to social stability and the accumulation of home equity, the biggest source of retirement savings for most Americans. Existing ceilings...and other limitations... prevent these worthy deductions from disproportionately benefiting the rich."

Critics argue The Big Three are regressive, inequitable, inefficient and expensive. William G. Gale, et al., "Encouraging Homeownership Through the Tax Code," Tax Notes, June 18, 2007. ([Source](#))

Here are some property-related tax issues for comparison.

Capital-gains rates. McCain wants to keep "as is" current long-term, capital-gains rates, with a top hit of 15 percent. But as part of his stimulus package, he proposed last week to cut this top rate to 7.5 percent for 2009-2010, at cost of about \$10 billion. ([Source](#)) The Tax Policy Center estimates that two-thirds of the benefit of halving the top capital-gains rate will go to those making \$1 million or more in 2009; those making less than \$50,000 would likely get nothing.

Obama wants to retain current capital-gains rates for families with incomes below \$250,000 and increase the top rate to 20 percent for the top two income brackets. That would be 20 percent for a couple making more than \$250,000 and a single filer with more than \$200,000. He favors requiring information reporting of tax basis for gains.

In current circumstances, both candidates might consider tax changes on losses as well as gains.

Estate tax. McCain wants to make permanent a \$5-million- per-individual, \$10-million exemption per couple with a 15-percent top rate on estates exceeding that amount. Obama wants to cap the exemption at \$3.5 million per individual, \$7 million per couple with a 45-percent top rate—the 2009 rules. Both favor "portability," which essentially doubles the exemption amount for the surviving spouse.

Most estates would escape federal taxation under either policy, as they do now. Tax-planning tools are available to protect estates that exceed the exemption, in whole or part depending on their size.

Neither candidate favors either reversion to the pre-2001 rules in 2011 or full repeal, which would cost about \$522 billion in lost federal revenue over the next ten years.

Farm aid. McCain opposed the 2008 farm bill; Obama supported it. McCain described it as "a \$300 billion, bloated, pork-laden bill" and opposed ethanol subsidies. Obama supported this subsidy. ([Candidate answers to American Farm Bureau questions](#), FB News, September 22, 2008, "Election 2008.") McCain has said: "I don't support agricultural subsidies no matter where they are."

Neither campaign responded to inquiries. So voters might ask: Would you continue present tax policies or change them —and, if so, how -- on

the following:

- deductibility of mortgage interest on second home
- deductibility of property taxes
- capital-gains exclusion on the sale of owner-occupied residence; second home
- residency requirement to qualify for capital-gains exclusion on residence
- reduce the holding period required to qualify for capital-gains treatment
- 1031 exchange rules
- deductibility of donated conservation-easement value
- second-home rules—personal use, deductions
- hobby-farm rules
- taxability of various agricultural/conservation, cost-share programs
- farm taxes--expensing and depreciation rules for farm/land equipment and improvements, among many other issues
- increasing the number of tax brackets to promote fairness and compliance
- timber taxation for small landowners
- treatment of rental income
- expensing and depreciation schedules
- self-employment and home-office rules
- passive-activity loss rules and carry-over loss rules

Tax rules and policies like these are the realm of "special interests," which both McCain and Obama deplore. Each American, of course, is a bundle of special interests, even Joe, the Plumber.

Presidents define where a special interest intersects with the public interest. If the candidates believe that both individuals and society benefit from widespread property ownership, then policies and tax rules can be established that encourage it. Tax policies can make it easier or harder to buy, maintain, hold, sell and profit from property.

My little excursion into these dark, swirling waters left me wondering which direction each candidate would row...and whether they would use one oar or two.

Curtis Seltzer, land consultant, is the author of How To Be A DIRT-SMART Buyer of Country Property at www.curtis-seltzer.com. He holds a Class A residential contractor's license in Virginia and has lived in a now 90-year-old farmhouse for 25 years.

Contact: Curtis Seltzer, Ph.D.
Land Consultant
1467 Wimer Mountain Road
Blue Grass, VA 24413-2307
540-474-3297
curtisseltzer@htcnet.org
www.curtis-seltzer.com