



The Honorable Kevin Brady
Chairman
House Committee on Ways & Means
1102 Longworth House Office Building
Washington, D.C. 20515

The Honorable Richard Neal
Ranking Member
House Committee on Ways & Means
1139-E Longworth House Office Building
Washington, D.C. 20515

November 9, 2017

Dear Chairman Brady and Ranking Member Neal:

On behalf of over 6,000 member locations operating single or multiple lumberyards and component plants serving homebuilders, subcontractors, general contractors, and consumers in the new construction, repair and remodeling of residential and light commercial structures, the National Lumber and Building Material Dealers Association (NLBMDA) agrees that comprehensive tax reform is needed to restore and sustain the competitiveness of American businesses. The Tax Cuts and Jobs Act (H.R. 1) attempts to make needed changes to the federal tax code, but falls short of this goal. NLBMDA is extremely concerned that some proposed changes will have a negative effect on residential housing, the lumber and building material (LBM) industry, and the economy overall.

NLBMDA strongly supports several provisions in the legislation. First, we support full and permanent repeal of the estate tax that is a burden on family-owned businesses and subsequently the livelihoods of their largely middle-income employees. Second, we support lowering the corporate income tax rate to a flat rate of 20 percent. Third, we support the provision to immediately write-off (or "expense") the cost of new qualified property through 2022, but believe the tax incentive should be made permanent to provide businesses with greater certainty and predictability.

However, NLBMDA is greatly concerned by proposed changes to the mortgage interest deduction that would lower the amount of mortgage debt eligible for deduction from \$1 million to \$500,000. This drastic reduction in the mortgage interest deduction will hurt many housing markets across the country, including high cost states and states that rely on second homes. The bill eliminates the interest deduction for mortgages on second homes and home equity loan debt and will create an artificial line of demarcation on home prices that could devalue equity for homeowners across the country and start another crash of the housing market.

As proposed, the number of households claiming the deduction would shrink from 34 million to 10 million. The changes do not adequately take into consideration the high cost of housing in some parts of the country. It is precisely in these areas where low and middle-income families already struggle. At a minimum, any changes should set the cap high enough relative to the cost

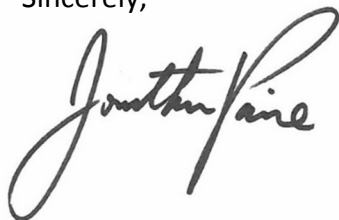
of living, and be indexed for inflation, so it does not unfairly disadvantage households living in areas with higher costs of living. Failure to incorporate these protections would likely produce an even higher barrier to home ownership, which would in turn drive rental costs even higher.

Households living in higher cost areas would also be harmed by proposed changes to the state and local tax (SALT) deduction. As proposed, the legislation eliminates the itemized deductions for state and local income and sales taxes, but allows Individuals to deduct up to \$10,000 for property taxes. These changes would harm individuals living in areas with higher local and state taxes, and make it more difficult for businesses in those areas to retain and attract workers. Many of the states hit hardest by this change already pay more into the federal tax system and eliminating this deduction goes against the principles of avoiding double taxation on the same income, which is why NLBMDA supports other provisions such as the elimination of the estate tax. NLBMDA strongly opposes the SALT deduction changes as currently proposed.

NLBMDA has long held that tax reform should level the playing field between small businesses and large businesses. The establishment of a new tax rate for businesses structured as pass-through organizations (such as limited partnerships, limited liability corporations, and S-corporations) is a good idea. However, the proposed changes could cause some small businesses to pay more, not less, in taxes, and lawmakers should make certain that the establishment of a new pass-through tax rate actually produces the intended effect of reducing the tax burden for small businesses.

NLBMDA agrees that tax reform, if done correctly, could increase economic growth and opportunity. Unfortunately, the legislation misses the mark by placing too much burden on homeowners and does not do enough for small businesses. The housing sector is vital to the economy and H.R. 1 would harm the housing and construction sectors. NLBMDA looks forward to working with you to ensure changes help small businesses, workers, residential housing, and the LBM industry.

Sincerely,

A handwritten signature in black ink that reads "Jonathan Paine". The signature is written in a cursive, flowing style with a large initial "J" and a long, sweeping underline.

Jonathan M. Paine
President & CEO
NLBMDA

Cc: House Committee on Ways & Means Members