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From: Andrew Casal <amchomesri@gmail.com>
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To: Senate Finance; Sen. Urso, Lori
Subject: Oppose S2549 RELATING TO TAXATION -- TAX ON GAINS FROM THE SALE OR EXCHANGE OF REAL PROPERTY

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Good Morning

I'm writing in to signify my opposition to Senate Bill S2549 RELATING TO TAXATION -- TAX ON GAINS FROM THE SALE OR EXCHANGE OF REAL PROPERTY.

This bill, the "flipper tax" is beyond reason and will only hurt the housing supply, making the current housing crisis even worse. Taxing a gain 60-80% percent is not a way for the state to put more money to work for the citizens and not even a way to punish rehabbers/flippers, it is a targeted bill designed to kill an industry. Nowhere in this country is a capital gains tax this high and it would be impossible for an individual who is doing such work to gain any real benefit from participating in it.

I believe the spirit of this bill came at the height of the COVID housing demand when rates were the lowest they have ever been. A rumor/mindset started spreading in RI that all the house flippers were stealing all the good homes and driving the prices to the moon. When a non-real estate investor/retail buyer is trying to buy a home and they are consistently being outbid and the prices keep rising, I completely understand their frustration and get where pointing the finger may allow for some venting of that frustration. However, I believe that this idea is misguided from the lack of knowledge regarding how house flipping actually works (believe it or not, HGTV has misguided the general public on how this works). Please allow me to present some points on where the general public gets this wrong and what the truth actually is.

One of the first incorrect ideas is that flippers are the one setting the prices on the houses and that is the forces at work. I can tell you from experience that flippers have no control over what the market dictates. I would love it if a house could be listed at \$50-\$100k more than its worth and still get a bidding war on it. That's just not how it works. Like retail home sellers, flippers are at the mercy of what the market is willing to pay and what the banks are willing to lend on. Prices skyrocketing in recent years has been due to historically low supply rates and very high demand from buyers for homes that are turn-key or move in ready.

This also rolls into my next point. House flippers don't buy a house and then set the prices based on the profit they want. Flippers have to work backwards when they purchase a home based on what the market is willing to pay. For example, if a 3/2 house is selling for \$400k in Warwick (purely an example), a house flipper will need to find a house that would sell for \$400k, subtract their desired profit (I'll use \$20k as an example), and subtract all the costs to get that home to where it is worth \$400k (we will say \$50k in repair cost, \$50k in soft costs i.e. interest, taxes, insurance, etc.). That means that when a house flipper goes to buy a home for their next project, his top offer would have to be \$280k. This brings me to my next point.

If a home is worth \$400k when repaired and a flipper's max bid is \$280k, they are not going to a listing for a pristine home and submitting a \$280k offer. I'd be surprised if they even got an answer to that offer. Flippers are buying homes that are not listable that your average family/home buyer wouldn't even give a second glance at. A personal example from a house I just completed. The original owner was a widower and a hoarder and had let the house go. He just wanted to get out and move down with his daughter but knew the house couldn't be listed in the condition it was in. I bought it at \$280k and this project was a beast. There was trash to the ceiling, mice feces sprinkled throughout the house, and a standalone freezer that had so much rotted food in it, you couldn't even stand near it without being punched in the chest. 2 months and 8 30' dumpsters later, the house was clean enough just to see the work that it needed to get done. On top of updating all the aesthetics, I replaced every mechanical part of that house to the point where the buyer of this house will not have to worry about anything failing for the next few years at least. All of that costs me \$160k in just repair/construction costs. This is not something a retail buyer is going to take on.

My final concern is not just for flippers. By implementing a bill that will essentially cut flippers off at the knees, you are going to be harming every other industry that is supported by them. This includes all of your contractors and builders, tradesman, real estate agents and brokerages, lenders, and insurance agents to name a few. In a time when everyone is struggling financially because costs keep going up, it is not wise to take away opportunity from those who provide a service.

The true solution to the housing crisis in RI is not to make housing more restrictive/punishing to those who provide it; it's to enable them to increase supply. Whether that is in building new homes or taking unlivable homes and renovating them to the quality and standard that RI families deserve, the housing supply is the only way out of the situation we are in.

I appreciate you taking your time in reading all of this and hope you will consider it all when reviewing this bill.

Thanks



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