Mortgage Interest Deduction Reform

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Each year, the federal government spends about $200 billion to help American families buy or rent their homes. A full three-quarters of these resources benefit higher income households—who would likely be stably housed without federal assistance—through the mortgage interest deduction (MID) and other homeownership tax benefits. Only a quarter of federal housing resources are used to help the 55 million lower income households who need this assistance to afford their homes.

While federal investments in affordable rental housing have a proven track record of reducing homelessness and housing poverty, these solutions are sorely underfunded. As a result, just 1 in 4 poor families that are eligible for rental housing assistance get the help they need. Meanwhile, half of all homeowners receive no tax benefit from the MID, and almost all of those who do have incomes over $100,000. For our nation to fully address the affordable housing crisis for families with extremely low incomes, we must rebalance scarce resources to increase investment in proven solutions.

NLIHC's United for Homes campaign seeks to make modest reforms to the MID—a $70 billion a year tax write-off that largely benefits America's highest income families—and reinvest the savings in housing that serves families with the greatest, clearest, most pressing needs through solutions like the national Housing Trust Fund (HTF) and rental assistance programs.

ABOUT UNITED FOR HOMES

The Solution

United for Homes (UFH) proposes two simple reforms to the MID: (1) Reduce the amount of a mortgage eligible for the MID from $1 million to the first $500,000—impacting fewer than 6% of homeowners—and; (2) convert the MID deduction into a nonrefundable 15% credit. All of the savings from MID reform should be reinvested in affordable rental housing for the lowest-income families.

These reforms would have zero costs to the federal government and would provide a tax break to an additional 15 million low and moderate income homeowners who currently do not benefit from the MID while generating $241 billion in savings over 10 years. These savings should be reinvested to address pressing affordable rental housing needs, including ending homelessness, helping veterans, seniors, families with children, and people with disabilities afford a home, and fighting poverty. This reinvestment could support nearly 4 million jobs and generate $282 billion in local revenue and $53 billion in local tax revenue.

The MID currently benefits America's highest income families who do not need help to be stably housed. According to the Congressional Budget Office, the top 20% of highest income households receive 75% of the benefits of the MID, and the top 1% get 15% of the benefits. In fact, $59 billion a year—80% of the MID—goes to households making more than $100,000 a year; $30 billion—40%—goes to households earning more than $200,000.

This imbalance occurs because the current MID tax break is based on a deduction. As a result, millions of low and moderate income homeowners who do not earn enough to itemize their deductions receive zero tax benefits from homeownership. And, because the value of the deduction is based on a household's tax rate, the MID provides more than twice as much support to households in the highest tax bracket than to lower-income families with the same size mortgage. For these reasons, economists agree that MID does little to promote homeownership.

Three-fourths of all taxpayers do not benefit from the MID. This includes about half of all homeowners who simply take the standard deduction on their taxes and households who rent. Those who do benefit from the MID are primarily higher income households who would choose to buy a home whether or not they were receiving the tax benefit.

The UFH proposal would expand and better target the MID to maximize its impact. Converting MID from a deduction to a credit would ensure that all homebuyers, including first-time and low and moderate income homeowners who most need the assistance to purchase a home, are receiving the benefit without increasing the cost to taxpayers. Moreover, reducing the size of a mortgage eligible for the MID to the first $500,000 would significantly reduce costs, while impacting very few homeowners. Only six percent of mortgages are over $500,000 (2013-2015 HMDA data); these households would still receive tax relief for the first $500,000 of their mortgage.

Ultimately, the UFH proposal would provide a tax break to an additional 15 million low and moderate income homeowners who currently do not claim the MID, while generating $241 billion in savings over 10 years to be reinvested in affordable rental housing programs for the lowest-income families.

REINVEST SAVINGS INTO AFFORDABLE HOUSING

It's time to re-prioritize and rebalance scarce federal housing resources to serve families with the greatest needs. Overall, about 60 percent of federal housing spending benefits households with incomes above $100,000. The seven million households with incomes of $200,000 or more receive a larger share of these resources than the more than 55 million households with incomes of $50,000 or less, even though lower-income families are far more likely to struggle to afford housing. At a time when America's housing affordability crisis continues to reach new heights, our nation should be investing scarce resources into programs that serve the poorest among us.

Housing is the key to reducing intergenerational poverty and increasing economic mobility. Research shows that increasing access to affordable housing is the most cost-effective strategy for reducing childhood poverty and increasing economic mobility in the United States. Stanford economist Raj Chetty found that children who moved to lower poverty neighborhoods saw their earnings as adults increase by approximately 31%, an increased likelihood of living in better neighborhoods as adults, and a lowered likelihood of becoming a single parent. Moreover, children living in stable, affordable homes are more likely to thrive in school and have greater opportunities to learn inside and outside the classroom.

Increasing access to affordable housing bolsters economic growth. Research shows that the shortage of affordable housing costs the American economy about $2 trillion a year in lower wages and productivity. Without affordable housing, families have constrained opportunities to increase earnings, causing slower GDP growth. In fact, researchers estimate that the growth in GDP between 1964 and 2009 would have been 13.5% higher if families had better access to affordable housing. This would have led to a $1.7 trillion increase in income, or $8,775 in additional wages per worker.

Moreover, each dollar invested in affordable housing boosts local economies by leveraging public and private resources to generate income—including resident earnings and additional local tax revenue—and supports job creation and retention.

FORECAST FOR 2017

Comprehensive tax reform is a top priority for President Trump and Congress in 2017. Speaker of the House Paul Ryan is a longtime advocate for rewriting the tax code, and has stated that it is at the top of the agenda.

Because the MID is one of the largest and most regressive of all tax expenditures, it has received increased attention by law and policy makers, and is thought to be ripe for reform but only as part of comprehensive tax reform. Numerous tax reform and deficit reduction panels and commissions have called for changes to the MID. Economists and tax policy experts across the political spectrum criticize the MID as inefficient and poorly targeted.

MID reform has also been gaining traction in Congress. Members of Congress may no longer see it as the "third rail" of housing and tax policy. Former House Ways and Means Committee Chairman Dave Camp (R-MI) included changes to the MID in his sweeping comprehensive tax reform bill introduced late in the 113th Congress. House Speaker Paul Ryan (R-WI), who started the 114th Congress as the chair of the Ways and Means Committee, has stated that he supports lowering the MID cap to $500,000.

Members of Congress have also taken note of the UFH campaign and have introduced legislation incorporating its proposal. In February 2017, Representative Keith Ellison (D-MN) and 33 additional Representatives sent a Dear Colleague letter to urge the House Ways and Means Committee, which oversees tax reform efforts, to keep housing dollars within housing in any comprehensive tax reform bill. The letter did not specifically call for MID reform. Instead, it argues that if Congress makes reforms to housing-related tax provisions, the savings should be reinvested in to key affordable rental housing programs. Following on the success of the Dear Colleague letter, Ellison introduced the Common Sense Housing Investment Act of 2017 (H.R. 948), which contains the UFH proposal to modify the MID and directs 100% of the revenue raised to the HTF and other low income rental housing programs. NLIHC and UFH strongly endorses this bill.

Low income housing advocates must make sure that when Congress does decide to modify MID through comprehensive tax reform that a significant share of the revenue raised from those changes goes to affordable rental housing.

WHAT TO SAY TO LEGISLATORS

- Ask your representative to co-sponsor the Ellison bill and any other legislation that is introduced that would change the MID and generate significant new revenue to fund the national Housing Trust Fund and other housing assistance for extremely low income renters.
- Educate the members of your Congressional Delegation on the benefits of MID reform and affordable housing solutions for the lowest income people.

HOW TO TAKE ACTION

- Endorse the United for Homes campaign! Secure other endorsers in your community.
- Urge local and state government officials to pass resolutions in support of the United for Homes proposal.
- Promote the UFH Campaign through social media.

FOR MORE INFORMATION

Learn more and join the UFH campaign at: www.unitedforhomes.org