NATIONAL HOUSING TRUST FUND

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*A home is the foundation.*

# HOUSING TAX REFORM
## How to Discuss with Realtors

As advocates for the National Housing Trust Fund argue for changes to the mortgage interest deduction that will produce savings that can be used to fund the NHTF, it is important to be able to discuss the proposal with people skeptical of changes to mortgage interest deduction. The National Association of Realtors has long opposed any changes to the mortgage interest deduction. Realtors in your community may be persuaded to reconsider that position if you can present the following facts.

**NLIHC proposes makes modest modifications to the mortgage interest deduction that would make it fairer and less costly.** The NLIHC proposal does the following:

- Reduces the cap on the amount of mortgage indebtedness for which the interest can be deducted from $1,000,000 to $500,000.
- Allows mortgages on second homes and home equity loans of up to $100,000 to be included under the $500,000 cap.
- Converts the deduction to a 15% non-refundable tax credit.
- Phases in the above changes over five years.
- Allocates the equivalent of the amount of savings to the Federal Treasury that would be gained from making the four changes above to the NHTF, approximately $200 billion between 2014 and 2024.

**Reducing the cap would not affect most homeowners.** According to data from the 2009 American Housing Survey, there were 28.7 million home mortgages taken out between 2000 and 2009 and only 4% were for more than $500,000. Moreover, the interest on the first $500,000 of all mortgages would still be used to calculate a break on individual taxes. The $500,000 refers to the amount of money borrowed, not the purchase price of a house or its current value.

**Second homes are a small part of the housing stock and most are of modest value.** Data from the 2011 American Community Survey shows that only 4% of all housing units in the U.S. were for "seasonal, recreational, or occasional use." A survey conducted by the National Association of Realtors shows that the median price for vacation homes in 2010 was $150,000. Further, NLIHC estimates that second homes account for just 1% of the total cost of the mortgage interest deduction, which would be about $800 million a year.

**More homeowners with mortgages would get a tax break for the mortgage interest they pay with a tax credit than a tax deduction.** While 75.5 million homeowners currently pay mortgage interest, only 51% (38.6 million) get a tax break. That is because the other 49% do not have enough income to itemize deductions on their tax returns. A taxpayer does not have to itemize to claim a tax credit; a tax credit comes right off the amount of tax owed. Under NLIHC's proposal, the number of homeowners who would get a tax break would increase to 54.9 million. Moreover, 99% of the new beneficiaries would have incomes of $100,000 or less, with 47% of the increase for homeowners with incomes of $50,000 or less.

**NLIHC's proposal enjoys popular support.** Polling shows that while Americans like the mortgage interest deduction a great deal, they also approve of lowering the cap to $500,000 and converting the deduction to a credit. In a nationwide poll of 1,000 adults conducted in August 2012,[1] 63% favor setting the cap at $500,000 and 56% support changing from a deduction to a credit. This support transcends partisan politics, with nearly percentages of Democrats, Republicans, and Independents favoring both changes. Both renters and homeowners also support the proposal.

**Contrary to popular belief, Congress did not create the mortgage interest deduction to promote home ownership.** 2013 is the 100th anniversary of the 16th Amendment to the U.S. Constitution, which established the modern federal income tax. The early structure of the tax code meant that only people of considerable means paid income tax. There was no mention of the mortgage interest deduction in the Revenue Act of 1913, but a deduction was allowed for all interest paid "within the year by a taxable person on indebtedness." This provision for deduction of all consumer interest remained in place until the Tax Reform Act of 1986, when it was limited to mortgage interest only, due to the influence of the real estate lobby. In 1987, the size of a mortgage for which interest could be deducted was capped at $1 million, plus $100,000 for home equity loans. Surely, any housing policy that has been in place for 100 years should be modernized to reflect contemporary market conditions.

**NLIHC proposes phasing in these changes gradually over five years to reduce the chances of shock to the housing market.** The cap would be reduced by $100,000 a year until the cap of $500,000 is reached. Similarly, the conversion from deduction to credit would be accomplished in 20% increments over the five year.

**Real estate professionals can learn more at [www.housingtaxreform.org](http://www.housingtaxreform.org).**
Access all of NLIHC's resources, learn more about the mortgage interest deduction and the proposed changes, see what organizations have already endorsed the proposal, and join the movement!

[1] Margin of error is ±3.1 percentage points