UNITED FOR HOMES

REFORMING THE MORTGAGE INTEREST DEDUCTION:

HOW TAX REFORM CAN HELP END HOMELESSNESS AND HOUSING POVERTY

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Executive Summary

Congress and the Trump administration should use tax reform to address one of the most critical issues facing extremely low-income families today: the lack of decent, accessible, and affordable housing. Through smart, modest reforms to the mortgage interest deduction (MID) — a $70 billion tax write-off that primarily benefits higher income households – Congress can reprioritize and rebalance federal spending on housing to make the deeply targeted investments in affordable rental housing that our nation needs for the economy, our communities, and families to thrive. *All without increasing costs to the federal government.*

Access to an affordable rental home is essential to economic prosperity and job creation. An affordable home is necessary for families to participate fully in the economy, making it easier for adults to find and keep good jobs and contribute to economic growth. Living in an affordable home improves children's health and education, increasing their economic success as adults. Moreover, federal investments in affordable homes boost local economies and create jobs. Despite the benefits of affordable homes, three out of four families eligible for rental assistance are turned away due to a lack of funding and half a million people are homeless on any given night. As a result, 71% of extremely low income households — those earning less than the poverty guideline or 30% of the Area Median Income – pay at least half of their limited income on rent, leaving few resources to cover basic needs, like food, healthcare, childcare, and transportation.

At the same time, three-fourths of the nearly $200 billion spent by the federal government to help Americans buy or rent their homes goes to higher income households. In fact, the federal government spends more to subsidize the homes of the 7 million households with incomes above $200,000 than to assist the 55 million households with incomes below $50,000, even though they are far more likely to struggle to afford a place to live.

Reprioritizing federal housing policy starts with reforming the MID and reinvesting the savings into affordable rental homes for people with the greatest needs. Experts from across the political spectrum are increasingly calling the MID what it is: a wasteful use of federal resources that encourages households to take on higher levels of debt, disrupts the housing market by increasing costs for everyone, and mostly benefits those who do not need federal assistance to live in a stable home. Research confirms that the MID has no impact on homeownership.

The National Low Income Housing Coalition (NLIHC) and the United for Homes campaign proposes modest reforms to the MID to provide 25 million low and moderate income homeowners greater tax relief and to reinvest the $241 billion in savings over 10 years to provide affordable rental homes to people with the lowest incomes.

President Trump has proposed indirect changes to the MID, including doubling the standard tax deduction. This could provide a greater tax break to low and moderate income households. However, because the resulting MID would become even more regressive, benefiting only the wealthiest homeowners with the largest mortgages, Congress should pair any proposal to increase the standard deduction with additional MID reforms and reinvest the savings into deeply targeted affordable rental housing.

By reprioritizing federal housing policy, Congress and the Trump administration can help end homelessness and housing poverty once and for all, giving all families an opportunity to break through the cycle of poverty and climb the ladder of economic success.

The Need for Affordable Housing

The affordable housing crisis in America continues to reach new heights. Rents are rising, wages of the lowest income workers are flat, and more people are renting their homes than ever before. But the supply of affordable housing and rental assistance has not kept pace. As a result, record-breaking numbers of families cannot afford a decent place to call home.1 Every state and congressional district is impacted. Unless we increase investments in affordable housing to keep up with the need, these challenges will only get worse as demand for rental housing grows over the next decade.[1]

The greatest need for affordable housing — on the local, state, and national level — is concentrated among extremely low income renters who earn no more than the poverty guideline or 30% of the area median income (AMI). NLIHC's recent report, The Gap: The Affordable Housing Gap Analysis 2017, found a shortage of 7.4 million affordable and available rental homes for the nation's 11.4 million extremely low income renter households. Nationally, only 35 affordable homes are available for every 100 extremely low income renter households. As a result, 71% of the poorest families are severely cost-burdened, spending more than half of their limited income on rent and utilities. These 8.1 million households account for 72.6% of all severely cost burdened renters in the country. They are forced to make difficult choices between paying rent and buying groceries or visiting their doctor. In the worst cases, these families become homeless.

NLIHC's report, Out of Reach 2017: The High Cost of Housing, shows the difference between wages and the price of housing in every state and county by estimating each locality's "housing wage," the hourly wage a full-time worker needs to earn to afford a modest, two-bedroom apartment. In 2017, the national housing wage was $21.21 per hour. A worker earning the federal minimum wage would need to work 117 hours a week — or 2.9 full-time jobs — to afford a modest two-bedroom apartment. While the housing wage changes from state to state and county to county, there is no jurisdiction in the United States where a full-time worker earning the prevailing minimum wage can afford a modest, two-bedroom apartment. And it's not just minimum wage workers for whom rents are out of reach: the average renter in the U.S. earns $16.38 per hour — nearly $5 an hour less than the national housing wage.

The public is looking to the White House and Congress for solutions. According to a recent How Housing Matters survey, 81% of Americans believe housing affordability is a problem in America, and 60% characterize the lack of affordable housing as a serious problem. Three out of four (76%) Americans believe it is important for federal elected officials to take action on housing affordability, and 63% believe the issue is not getting enough attention.[2]

Impact on Economic Mobility

Affordable housing is a long-term asset that helps families and children climb the economic ladder. According to the How Housing Matters survey, 70% of Americans agree that "investing in affordable, quality housing is investing in kids and their future."[3]

Increasing the supply of affordable housing and rental assistance — especially in areas connected to good schools, well-paying jobs, healthcare, and transportation — helps families climb the economic ladder. In addition, children who live in stable, affordable homes have better health and educational outcomes, gain greater access to economic opportunities, enjoy better mental and physical well-being, and benefit from stronger communities. Research shows that increasing access to affordable housing is *the most cost-effective strategy* for reducing childhood poverty in the United States.[4]

Groundbreaking research by economist Raj Chetty offers persuasive evidence of the impact of affordable housing on upward mobility for children. Using new tax data, Chetty and his colleagues assessed the long-term outcomes for children who moved at a younger age to lower poverty neighborhoods. Chetty's study found that children who were younger than 13 when their family moved to lower poverty neighborhoods saw their earnings as adults increase by approximately 31%, were more likely to live in better neighborhoods as adults, and less likely to become a single parent.

Other research shows that children living in stable, affordable homes are more likely to thrive in school and have greater opportunities to learn inside and outside the classroom. Children in low income households that live in affordable housing score better on cognitive development tests than those in households with unaffordable rents.[5] Researchers suggest that that is partly because parents with affordable housing can invest more in activities and materials that support their children's development.[6]

Having access to affordable housing allows the lowest income families to devote more of their limited resources to other basic needs. Families paying large shares of their income for rent have less money to spend on food, health care, and other necessities.[7]

Impact on the Economy and Job Creation

Beyond the broad benefits to economic mobility, an investment in affordable housing for the lowest income households bolsters productivity and economic growth. By connecting workers to communities with well-paying jobs, good schools, and transit, investments in affordable housing can spur local job creation and increase incomes.

Research shows that the shortage of affordable housing in major metropolitan areas costs the American economy about $2 trillion a year in lower wages and productivity. Without affordable homes, families have constrained opportunities to increase earnings, causing slower GDP growth.[8] 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 supporting job creation and retention. Building 100 affordable rental homes generates $11.7 million in local income, $2.2 million in taxes and other revenue for local governments, and 161 local jobs in the first year.[9]

The Need to Reprioritize Federal Housing Policy

Federal investments in affordable housing — at the U.S. Departments of Housing and Urban Development (HUD) and Agriculture (USDA) — have lifted millions of families out of poverty. Without these investments, many of these families would be homeless, living in substandard or overcrowded conditions, or struggling to meet other basic needs because too much of their limited income would go to paying rent. Despite their proven track record, HUD and USDA affordable housing investments have been chronically underfunded. Today, of the families who qualify for housing assistance, only a quarter will get the help that they need. Every state and congressional district is impacted.

There is no silver-bullet solution. Housing challenges differ from community to community. Congress and the Trump administration, as well as state and local governments, must use every tool available to solve the problem. A comprehensive set of solutions to end housing insecurity in America includes preserving and rehabilitating our nation's existing affordable housing stock, increasing investments in the production of affordable rental homes for low income families, and expanding rental assistance and other housing programs that help make housing affordable.

Underlying all these solutions is the need to increase targeted federal investments in affordable housing to help families and communities thrive. This can be done — **without increasing costs for the federal government** — by reforming the MID, our nation's largest housing subsidy that largely benefits higher income homeowners, and reinvesting the savings to serve those with the greatest needs.

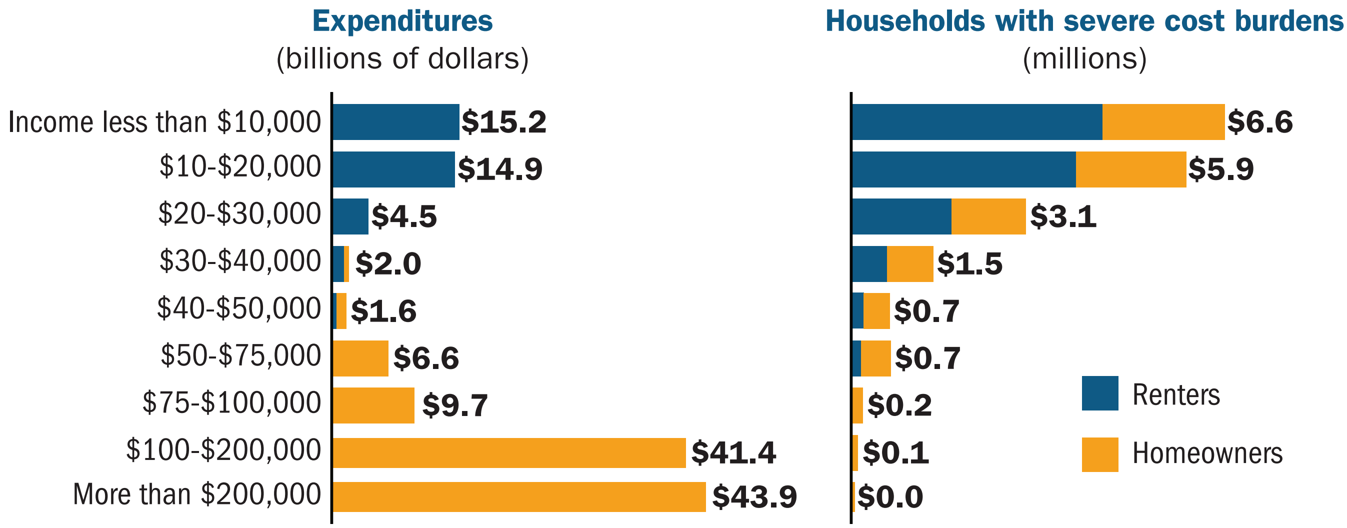
Most Federal Housing Resources Are Poorly Targeted to Serve People with the Greatest Needs

Each year, the federal government spends almost $200 billion to help Americans buy and rent their homes. A full 75% of all these resources — including both program spending and tax expenditures — goes to subsidize higher income homeowners though the MID and other homeownership tax breaks. Targeted federal housing resources at HUD and USDA, which have seen deep funding cuts in recent years due to the low spending caps required by the Budget Control Act, amount to just a quarter of all federal spending on housing.[10]

Federal housing policy is so unbalanced, in fact, that we as a nation spend more to subsidize the homes of the 7 million highest income households with incomes above $200,000 than we do to help the 55 million households with incomes of $50,000 or less, even though these families are more likely to struggle to afford housing.[11] *(See Chart 1)*

The Center on Budget and Policy Priorities estimates households with incomes of $200,000 or more receive an average federal housing benefit of $6,076 per year — about four times the average annual benefit of $1,529 received by households with incomes below $20,000.

CHART 1: FEDERAL HOUSING EXPENDITURES POORLY MATCHED TO NEED



Notes: Data are for 2015. Homeowners expenditures include the mortgage interest and property tax deductions; income figures are for tax filing units. Rental expenditures include total outlays for the Housing Choice Voucher, Section 8 Project-Based, Public Housing, Housing for the Elderly (Section 202), and Housing for People with Disabilities (Section 811) programs; income figures are for households. Data on the income of beneficiaries of various housing expenditures are available only for these programs, which represent about three-fourths of homeownership and rental spending. HUD defines households with severe cost burdens as those paying more than half their income for housing.

Sources: CBPP analysis of HUD program data. Census data on number of households and cost burdens in each income group. Joint Committee on Taxation tax expenditures estimates, and the Office of Management and Budget public budget database.

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The Mortgage Interest Deduction Is a Wasteful Use of Federal Resources

The MID is poorly targeted and largely benefits America's highest income households.

For this reason, experts from across the ideological spectrum criticize the MID as a wasteful use of federal resources that encourages households to take on higher levels of debt, disrupts the housing market by increasing costs for everyone, and mostly benefits those who do not need federal assistance to live in a stable home. Research confirms that the MID has no impact on homeownership.

The MID Promotes Debt, Not Homeownership

According to estimates by the congressional Joint Committee on Taxation, the MID primarily benefits households with the higher incomes. Households earning less than $100,000 represent two-thirds (68%) of all taxable returns. However, these households amount to one-third (36%) of all households that claim the MID, and they receive just 16% of all MID dollars.

In comparison, households with incomes of more than $100,000 represent 32% of all taxable returns, but more than two-thirds (64%) of all households that claim the MID. They receive 84% of all MID dollars.

And households with incomes above $200,000 file only 8% of all taxable returns. They amount to 21% of all households claiming the MID and they receive nearly half (46%) of all MID dollars. *(See Table 1)*

The nonpartisan Congressional Budget Office (CBO) reports that 75% of the benefits of the MID go to the top 20% of earners. In fact, 15% of the benefits of the MID, or nearly $11 billion each year, goes to the top 1% of earners, the wealthiest households in America.

Everyone else gets almost nothing. Approximately 70% of all taxpayers do not receive the MID,

TABLE 1: HOUSEHOLD INCOMES

Household Incomes	Percent of Taxable Returns	Percent of All Households Claiming the MID	Percent of MID Benefit
Incomes < $100,000	68%	36%	16%
Incomes > $100,000	32%	64%	84%
Incomes > $200,000	8%	21%	46%

Source: Joint Committee on Taxation, 2017

including half of all homeowners who do not itemize their tax deductions and instead take the standard deduction.

Economists agree that the MID does little to promote homeownership. Higher income households that benefit from the MID would likely choose to buy a home regardless of whether they receive a tax break. Instead, the MID incentivizes these higher income households to take on larger mortgages; greater mortgage debt results in more mortgage interest eligible for a tax break. Moreover, the value of the MID corresponds to a household's marginal tax rate, so households in higher tax brackets receive more than households in lower tax brackets.

For example, in the first comprehensive, long-term study of how tax subsidies affect housing decisions, the National Bureau of Economic Research found that the MID "has a precisely estimated zero effect on homeownership," even in the long term. Instead, the data show that the MID encourages homeowners to buy larger and more expensive houses and to take on increased levels of debt.

Meanwhile, lower income homeowners receive little to no benefit from the MID. These households are far less likely to itemize their tax deductions; their mortgages tend to be smaller and, therefore, they have less mortgage interest eligible for a tax break. And even if they claim the mortgage deduction, because their marginal tax rate is lower, the value of the MID is significantly less than homeowners with higher incomes.

As the chart on the next page shows, households earning more than $1 million receive an average annual MID benefit of nearly $9,000, while households earning between $40,000 and $50,000 receive an average MID benefit of $528 per year.[12] (*See Chart 2*).

Economists note that many developed countries without a MID have the same or higher homeownership rate as the U.S. As the CBO has reported, "Despite the favorable tax treatment that mortgage interest receives in the United States, the rate of homeownership here is similar to that in Australia, Canada, and the United Kingdom, and none of those countries currently offers a tax deduction for mortgage interest."[13]

The MID Distorts Markets and Increases Costs

The MID distorts the housing and investment markets, increasing the cost of homeownership and dampening economic growth.

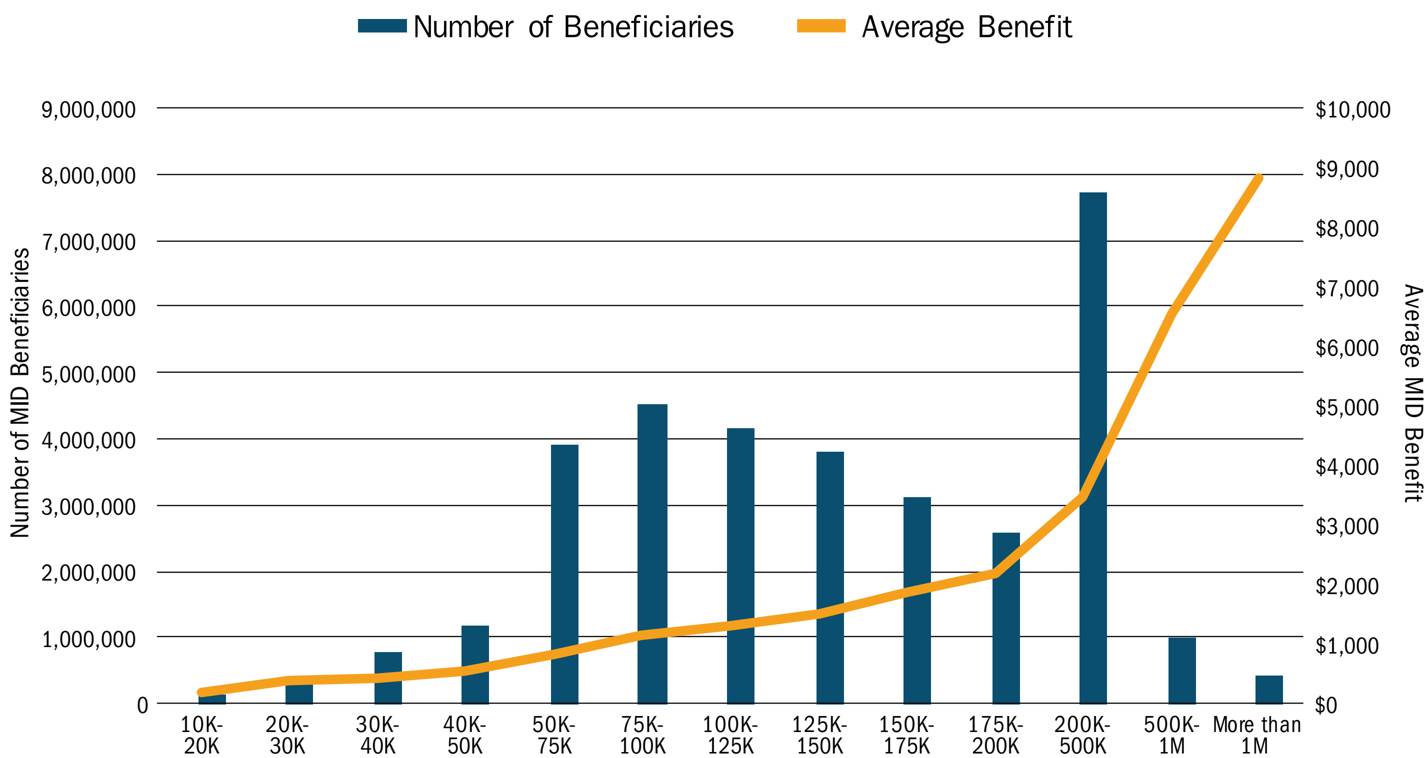
By inflating home values, the MID largely benefits households that already own their homes at the expense of those who hope to become homeowners in the future. While higher income households can absorb higher housing costs without a significant impact on homeownership rates, this added expense makes it more difficult for low and moderate income families to buy a home.

Others have also argued that the MID distorts the housing market by discouraging investment in one consumer good – homes – at the expense of other possibly more productive economic activity.[14]

The MID Increases Income Inequality and Fuels the Racial Wealth Gap

Pulitzer prize-winning author and sociologist Matthew Desmond illustrated how the MID has become "the engine of American inequality" in his recent New York Times magazine article. Dr. Desmond notes that the federal government spends about $134 billion to subsidize the homes of higher income households through the MID and other homeownership tax breaks – more than the entire budgets of the U.S. Departments of Education, Justice and Energy combined and more than half the entire gross domestic product of countries like Chile, New Zealand and Portugal. At the same time, too few low

CHART 2: TOTAL BENEFICIARIES AND AVERAGE BENEFIT OF THE MORTGAGE INTEREST DEDUCTION BY INCOME



Source: Tax Policy Center, 2015

income households that use more than half of their limited incomes for rent each month, leaving very little left to cover the cost of groceries, medicine, and other basic needs.

In his new book, Toxic Inequality: How America's Wealth Gap Destroys Mobility, Deepens the Racial Divide, & Threatens Our Future, sociologist Thomas Shapiro examines the role the MID has played in exacerbating growing income inequality and racial inequity. After noting that "we invest five times more public money in home ownership for families that can afford homes than in decent, affordable housing for those who cannot," Shapiro argues that this public investment in homeownership "flows mostly to the best-off homeowners, redistributing wealth at the top, driving wealth inequality, and contributing to toxic inequality."[15]

While there is less direct data on the racial impact of the MID — largely because race and ethnicity data are not collected on tax forms — there is significant evidence that the MID negatively impacts households of color. Recently, the Tax Policy Center examined ZIP codes in which high rates of residents claimed the MID; it found that black households represent only 5.6% of the population in these areas, less than half their national proportion. By comparison, residents of ZIP codes with the highest rates of taxpayers claiming the MID are disproportionately white.[16]

Moreover, by examining MID beneficiaries by income bracket, the Tax Policy Center found that black households receive only 3.5% of tax expenditures in individual wealth building, which includes the MID, despite comprising 13.2% of the population. "African-American families would accumulate $35 billion more in wealth each year if their incomes were distributed according to their national representation — 13.2% in each income bracket."[17]

Proposals to Reform the Mortgage Interest Deduction

Congress has a clear opportunity to enact tax reform that addresses the growing affordable rental housing crisis facing millions of low-income people in every state and community. That starts with reforming the MID, our nation's largest housing subsidy, and reinvesting these scarce resources to serve those with the greatest needs.

Experts from across the political spectrum agree, including the Wall Street Journal editorial board, former President George W. Bush advisor Dennis Shea, the CATO Institute, the Ronald J. Terwilliger Foundation, former President Obama advisor Michael Stegman, former Labor Secretary Robert Reich, Pulitzer prize-winning author and sociologist Matthew Desmond, and many others.

NLIHC's United for Homes campaign – which has been endorsed by more than 2,300 organizations, local governments, and elected officials – proposes to reform the MID. The changes are simple and modest. United for Homes calls for:

1. Reducing the amount of mortgage eligible for tax relief from $1 million to the first $500,000, generating $87 billion in savings over 10 years.[18]

An analysis of 2013-2015 Home Mortgage Disclosure Data (HMDA) shows that just 6% of new mortgages in the U.S. are over $500,000. *(See Figure 1)* And homeowners with large mortgages would still receive tax relief on the first $500,000 of their mortgage. For example, a homeowner with a mortgage of $600,000 would still benefit from a tax break on the first $500,000 of their mortgage.

Lowering the cap would have "virtually no effect on homeownership rates." Economist Edward Glaeser argues that capping the MID at the first $500,000 would have only "modest effects on home prices" in supply-constrained cities like San Francisco and virtually no effect in cities with plenty of available land, like Houston. "Most homeowners wouldn't even feel it," Glaeser says.

2. Converting the deduction into a nonrefundable, 15% capped credit, generating $191 billion in savings over 10 years.

Half of all homeowners receive no benefit from the MID because they do not itemize their tax deductions. By converting MID to a credit, an additional 15 million homeowners — 99% of whom have incomes under $100,000 — who currently get no benefit under the MID would receive a much-needed tax break. In total, 25 million low and moderate income homeowners would receive a greater tax break than they currently do under the MID. *(See Figure 2, 3, 4, and 5)*

Converting the deduction to a credit has been proposed by several high-level bipartisan groups — President George W. Bush's Advisory Panel on Federal Tax Reform, the Simpson-Bowles Deficit Commission established by President Barack Obama, and the Bipartisan Policy Center's Debt Reduction Task Force — as a way to expand the tax break to more low and moderate income homeowners.

3. Reinvesting the $241 billion in savings over 10 years into affordable rental homes for families with the greatest, clearest housing needs.

The UFH reforms would generate $241 billion in savings over 10 years[19] to be reinvested into highly targeted rental housing programs that serve families with the greatest needs, including the national Housing Trust Fund (HTF), a new renters' credit, Housing Choice Vouchers, and other solutions for the lowest income people.

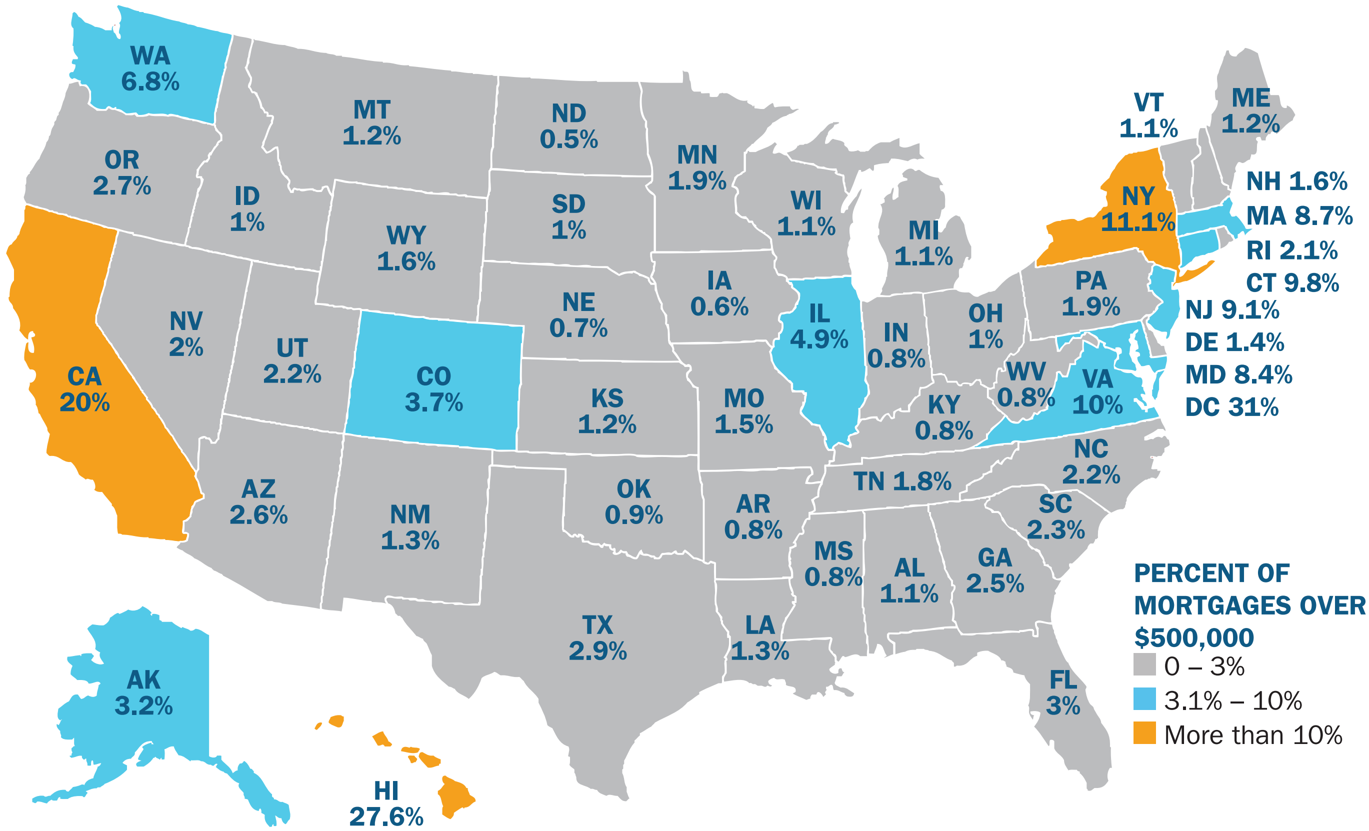
National Housing Trust Fund

The national Housing Trust Fund is the first new housing resource in a generation, targeted to build, preserve, and rehabilitate housing for people with the lowest incomes.

NLIHC led a national coalition that played a critical role in the creation of the Housing Trust Fund through the passage of the *Housing and Economic Recovery Act of 2008*. In 2016, the first $174 million in Housing Trust Fund dollars were allocated to states. This is an important step, but far more resources are necessary to meet the need.

The Housing Trust Fund is the *only federal housing program* exclusively focused on providing states with resources targeted to serve households with the clearest, most acute housing needs. Because the Housing Trust Fund is administered by HUD as a block grant, each state has the flexibility to decide how to best use Housing Trust Fund resources to address its most pressing housing needs. Each state distributes the resources based on its annual

FIGURE 1: JUST 6.0% OF MORTGAGES IN THE UNITED STATES FROM 2013 TO 2015 WERE OVER $500,000



Source: NLIHC analysis of Home Mortgage Disclosure Act (HMDA) data.

Allocation Plan, which identifies the state's priority housing needs. States decide which housing developments to support.

The Housing Trust Fund is also *the most targeted federal rental housing production and homeownership program.* By law, at least 75% of Housing Trust Fund dollars used to support rental housing must serve extremely low income (ELI) households earning no more than 30% of the Area Median Income (AMI) or the federal poverty limit. All Housing Trust Fund dollars must benefit households with very low incomes earning no more than 50% of AMI. Most other federal affordable housing programs can serve families up to 60 or 80% of AMI. The statute requires that at least 90% of the HTF funds be used for the production, preservation, rehabilitation, or operation of rental housing. Up to 10% may be used for homeownership activities for first-time homebuyers: production, preservation, and rehabilitation, and down payment, closing cost, and interest rate buy-down assistance.

Currently, the Housing Trust Fund is funded with dedicated sources of revenue outside of the appropriations process. The initial source of funding designated in the statute is an annual assessment of 4.2 basis points (0.042%) of the volume of business of Freddie Mac and Fannie Mae, 65% of which goes to the Housing Trust Fund.

The statute also provides that the Housing Trust Fund can be funded by other sources of revenue, such as any appropriations, transfers, or credits that Congress may designate in the future. However, the Housing Trust Fund should be funded with dedicated revenues generated outside of the appropriations process so that it does not compete with existing HUD programs.

Renters' Credit

NLIHC supports proposals to establish a tax credit to help make housing affordable for renters with

FIGURE 2: HOW WOULD REFORMING THE MID AFFECT A HEAD OF HOUSEHOLD TAXPAYER WITH 2 CHILDREN UNDER 13?

	LOWER INCOME	MIDDLE INCOME	HIGHER INCOME
INCOME	$45,000	$80,000	$200,000
MORTGAGE INTEREST PAID	$4,000	$8,000	$20,000
CURRENT LAW: Deduction	$259 TAXES OWED	$7,016 TAXES OWED	$37,172 TAXES OWED
PROPOSED LAW: 15% Credit	0 TAXES OWED	$5,816 TAXES OWED	$40,672 TAXES OWED
	$259 TAX CUT	$1,200 TAX CUT	$3,500 TAX INCREASE

Calculations by the Center for Economic and Policy Research. Based on 2012 Form 1040 (U.S. Individual Income Tax Return).

FIGURE 3: HOW WOULD REFORMING THE MID AFFECT A MARRIED COUPLE UNDER 65 WITH 2 CHILDREN UNDER 13?

	LOWER INCOME	MIDDLE INCOME	HIGHER INCOME
INCOME	$45,000	$80,000	$200,000
MORTGAGE INTEREST PAID	$4,000	$8,000	$20,000
CURRENT LAW: Deduction	-$1,501 TAXES OWED	$4,209 TAXES OWED	$31,971 TAXES OWED
PROPOSED LAW: 15% Credit	- $1,501 TAXES OWED	$3,009 TAXES OWED	$32,331 TAXES OWED
	$0 NO CHANGE	$1,200 TAX CUT	$360 TAX INCREASE

Calculations by the Center for Economic and Policy Research. Based on 2012 Form 1040 (U.S. Individual Income Tax Return).

FIGURE 4: HOW WOULD REFORMING THE MID AFFECT A SINGLE TAXPAYER WITH NO KIDS?

LOWER INCOME	MIDDLE INCOME	HIGHER INCOME
INCOME $45,000	INCOME $80,000	INCOME $200,000
MORTGAGE INTEREST PAID $4,000	MORTGAGE INTEREST PAID $8,000	MORTGAGE INTEREST PAID $20,000
CURRENT LAW: Deduction	**CURRENT LAW: Deduction**	**CURRENT LAW: Deduction**
$4,856 TAXES OWED	$12,936 TAXES OWED	$42,629 TAXES OWED
PROPOSED LAW: 15% Credit	**PROPOSED LAW: 15% Credit**	**PROPOSED LAW: 15% Credit**
$4,256 TAXES OWED	$12,399 TAXES OWED	$44,311 TAXES OWED
$600 TAX CUT	**$537 TAX CUT**	**$1,682 TAX INCREASE**

Calculations by the Center for Economic and Policy Research. Based on 2012 Form 1040 (U.S. Individual Income Tax Return).

FIGURE 5: HOW WOULD REFORMING THE MID AFFECT A MARRIED COUPLE UNDER 65 WITH NO CHILDREN?

LOWER INCOME	MIDDLE INCOME	HIGHER INCOME
INCOME $45,000	INCOME $80,000	INCOME $200,000
MORTGAGE INTEREST PAID $4,000	MORTGAGE INTEREST PAID $8,000	MORTGAGE INTEREST PAID $20,000
CURRENT LAW: Deduction	**CURRENT LAW: Deduction**	**CURRENT LAW: Deduction**
$2,904 TAXES OWED	$8,194 TAXES OWED	$35,155 TAXES OWED
PROPOSED LAW: 15% Credit	**PROPOSED LAW: 15% Credit**	**PROPOSED LAW: 15% Credit**
$2,304 TAXES OWED	$6,994 TAXES OWED	$35,291 TAXES OWED
$600 TAX CUT	**$1,200 TAX CUT**	**$136 TAX INCREASE**

Calculations by the Center for Economic and Policy Research. Based on 2012 Form 1040 (U.S. Individual Income Tax Return).

the lowest incomes.[20] Our nation has long provided mortgage tax relief for higher income homeowners, most of whom would be stably housed without assistance. A renters' tax credit that could help ensure that the lowest income households can afford a safe, decent home is long overdue.

A renters' tax credit could complement the existing Low Income Housing Tax Credit—which works well as a subsidy for affordable housing development, but is rarely sufficient on its own to push rents down to levels poor families can pay — and rental assistance programs, such as Housing Choice Vouchers — which are highly effective, but reach only a modest share of the families in need of such assistance.

Any renters' credit should benefit individuals with the lowest incomes and the greatest needs. Efforts to ensure that extremely low income households do not pay more than 30% of their incomes on housing should be prioritized.

Proposals to establish a renters' tax credit offer a promising opportunity to address the affordable housing challenges of the many lowest income households who go without assistance and to help these families keep more of their incomes for other necessities.

Housing Choice Vouchers

Housing Choice Vouchers are a proven tool in reducing homelessness and housing insecurity, as well as helping families climb the economic ladder. Housing vouchers help people with the lowest incomes afford housing in the private market by paying landlords the difference between what a household can afford to pay in rent and the rent itself, up to a reasonable amount. Administered by HUD, housing vouchers comprise the agency's largest rental assistance program, assisting more than 2.2 million households.

Despite the program's proven success in ending homelessness and reducing housing insecurity, limited funding means that relatively few eligible families receive this needed assistance. Today, just one in four eligible families receives the rental assistance they need.

Recently, NLIHC published Housing Spotlight: The Long Wait for a Home, which examined the waiting lists for federally assisted housing. NLIHC surveyed public housing authorities (PHAs) across the nation and found that more than half (53%) of all waiting lists for housing vouchers were closed to new applicants. Of these, 65% had been closed for at least one year. The average wait time for vouchers is 1.5 years, and a quarter (25%) had waiting lists of at least three years. Some of the largest PHAs had waiting lists of at least seven years.

Given the program's effectiveness, we recommend that Congress significantly expand housing vouchers to provide families in need with housing choice.

While housing vouchers offer families the prospect of moving to areas of opportunity, barriers to mobility prevent many from doing so. Many private-sector landlords refuse to accept housing vouchers—whether because of the administrative costs, because vouchers do not cover the full cost of rent in high-cost areas, or outright discrimination. There are a number of steps that can be taken to address these issues, including consolidating public housing authorities' administration of vouchers within a housing market, directing HUD to adopt small area fair market rents (SAFMRs) with strong tenant protections, barring source-of-income discrimination, and funding mobility counseling pilot programs, among others.

Proposals to Double the Standard Tax Deduction

President Trump's broad principles for tax reform includes indirect changes to the MID, including a proposal to double the standard deduction.

If the standard deduction were doubled, many households would no longer claim the MID and instead would take the increased standard deduction. This change in the tax code could provide a greater tax break to many low and moderate income households and could lead to higher homeownership rates over the long-term.

However, without additional reforms, Mr. Trump's proposal would amplify the MID's regressive effect; only higher income Americans with the largest mortgages would benefit. NLIHC agrees with the Wall Street Journal editorial board that if Congress doubles the standard deduction, it should also embrace other reforms to make MID less regressive — like reducing the amount of mortgage eligible for the MID from $1 million to the first $500,000. The savings from such a change must be reinvested into deeply targeted affordable rental housing.

Doubling the Standard Deduction Could Boost Homeownership Rates and Home Values

Economists argue that doubling the standard deduction could boost homeownership rates over the long-term. Trulia's Chief Economist Ralph McLaughlin states, "While the tax benefits of homeownership will erode for some, it might help increase the ability of renters to save up for the all elusive down payment. In turn, this could boost home buying activity in the long run."[21]

Dennis Ventry from the American Enterprise Institute likewise suggests that doubling the standard deduction would increase demand for homeownership, especially among low and moderate income families because the proposal "subsidizes taxpayers on the margin between owning and renting rather than taxpayers who can purchase a home with or without a subsidy."[22] Millions of current homeowners would see a greater tax break and so would first-time homeowners eager to jump into the homeownership market.

Some industry groups have warned that doubling the standard deduction could dampen home values — a claim that experts dispute. While Ventry concedes that home prices may decrease initially, this effect would be temporary and would be outweighed by a longer-term increase in the demand for homeownership: "Positive effects on homeownership rates from lower home prices would more than offset negative effects from loss of the deductions, particularly in high-priced, space-constricted markets." Ventry argues that, in most parts of the country, doubling the standard tax deduction would "have no negative effect on prices and might even raise prices due to the purchasing power of the new tax-free dollars."[23]

Additional Reforms Are Needed If Congress Doubles Standard Deduction

Today, about 70% of taxpayers do not benefit from the MID. This includes half of all homeowners who do not itemize their tax deductions. The National Association of Realtors estimates that if the standard deduction is doubled, as proposed by President Trump, 95% of taxpayers will choose to take the standard deduction. The higher standard deduction would provide them with a greater tax break than itemizing their tax deductions. As a result, only 5% of taxpayers — primarily higher income households with the largest mortgages — would continue to claim the MID.[24]

Prashant Gopal and Joe Light estimate that a married couple would need a mortgage of at least $608,000 before it would make sense to itemize rather than use the standard deduction, assuming that the couple did not have any other itemizable deductions, which was proposed by the Trump administration.[25] Only higher income Americans — those who would likely become homeowners without a tax break and who would likely have stable housing without federal assistance — would benefit from the MID.

Because the resulting MID would become even more regressive after the standard deduction was doubled, Congress should pair any proposal to double the standard deduction with additional MID reforms, including reducing the amount of mortgage eligible for the MID from $1 million to the first $500,000 and reinvesting the savings into deeply targeted affordable rental housing.

Conclusion

NLIHC and the United for Homes campaign looks forward to working with Congress and the Trump administration to address the lack of decent, accessible, and affordable housing, especially among families with the greatest needs, through tax reform legislation. Together, we can help end family homelessness and housing poverty once and for all.

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