The largest housing subsidy

By: Joe Nathanson August 31, 2017

The Congress will soon be returning to work after its August recess and, along with other pressing matters, will be turning its attention to the task of overhauling the nation's tax code. It's still to be determined as to whether this will involve serious tax reform or an enthusiastic exercise in tax cutting.

Some lawmakers are particularly interested in dealing with what is regarded as the high marginal corporate tax rate making American companies less competitive in international markets. Others may be equally concerned with the high marginal rates that apply to individual incomes. While talk of revising the tax code has been generally vague to date, most of the discussion has involved lowering marginal corporate rates from a nominal 35 percent down to 15 percent. Individual filers would, under some proposals, see marginal rates of 15 percent, 25 percent or 35 percent, depending on their income brackets.

Of course, cutting these rates will have the effect of adding to the burden of the nation's accumulated debt, now $19 trillion and counting.

Savings in housing programs

Some potential cost savings have already been signaled in preliminary budget proposals released earlier this year. Many of these proposals target programs that have provided assistance to local communities and, in particular, to residents of low-income communities.

Among the programs on the chopping block is the Community Development Block Grant, a $3 billion program that, since the days of the Ford administration, has been providing support to low- and moderate-income communities across America.

The HOME Investments Partnerships Program, which leverages private funds to expand the supply of affordable housing would be eliminated, saving $950 million, based on this year's funding. Just recently, Baltimore Housing announced plans to completely redevelop the Perkins Homes public housing complex in southeast Baltimore, with funds from the Choice

Neighborhoods revitalization grants cited as a funding source. Under the draft budget, the Choice Neighborhoods initiative, funded nationally this year at $138 million, is also zeroed out.

According to the press release issued with the U.S. Department of Housing and Urban Development budget draft, these activities could be carried out more effectively by state and local agencies. Left unsaid in that justification for budget cutting is any indication of the resources available to these state and local entities.

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These draft budget figures from the Office of Management and Budget still have to be reviewed and acted upon by the House and Senate before a budget bill can be signed by the president. But, if the Congress is serious about finding savings in the budget in order to lower personal and corporate marginal tax rates, why are they not looking at the largest of all housing subsidies?

If you are a homeowner, you should be very familiar with that most generous of all housing subsidies. It is, of course, the deduction that a homeowner is able to take for the mortgage interest paid. That deduction, spread across all income tax itemizers, adds up to a huge amount for the nation, an estimated $ 71 billion in 2015.

On top of that loss to the treasury, the mortgage interest deduction is extremely regressive in its impact. While the nation is in the midst of an affordable housing crisis, the largest tax deductions for mortgage interest go to the wealthiest homeowners.

As pointed out in a recent article, "The Shame of the Mortgage-Interest Deduction" in The Atlantic, "These high-income households don't consider their tax benefits to be a form of government policy at all. For example, 60 percent of people who claim the (mortgage interest deduction) say they have never used any government program, ever. As a result, rich households can be skeptical of public-housing policies while benefiting from a $71 billion annual tax benefit which is, functionally, a public-housing policy for the rich."

The mortgage interest deduction can and should be re-examined in any overhaul of the nation's tax code. The current deduction for the first $1 million of home mortgage debt could be lowered to, say, $500,000 without disrupting residential real estate markets. Over time even that tax benefit could be phased out, perhaps limiting the deduction to first-time homebuyers.

The billions of dollars saved annually for the U.S. treasury could allow for lower marginal tax rates. More importantly, in a humane nation, some of those billions could be directed toward the nation's affordable housing crisis.

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