



Peorians win in tax reform

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November 15, 2017

The proposed tax reform currently being debated in Congress makes several significant changes to the personal tax code that have created some homeowner consternation, but for most people in central Illinois, needlessly so.

For instance, the bill passed by the House Ways and Means Committee would allow homeowners to deduct interest only on mortgages of \$750,000 or less — down from the current \$1 million — and would cap the deduction for property taxes at \$10,000. It would also eliminate the deduction for state income taxes.

To make up for these lost deductions the House bill increases the standard deduction — what people can deduct in lieu of itemizing their various deductions — to \$25,000.

Some people have strenuously objected to this change. For instance, the National Association of Realtors contends that tax reform will result in fewer people taking the mortgage interest deduction, and that many homeowners will be worse off.

While some people would face higher tax bills resulting from such a change, those people will overwhelmingly be wealthy people who live in high-cost, high-tax states. Very few homeowners in central Illinois will be worse off because the increased standard deduction will more than make up for their loss of deductions.

Believe it or not, central Illinois remains a relatively low-tax jurisdiction compared to the rest of the U.S. While property taxes here have increased sharply the last few years and the state income tax jumped to 4.95 percent, both remain below what people in most major metropolitan areas pay. In Wisconsin, for instance, the top income tax rate is 6.27 percent and begins at just \$30,000. In Washington, D.C. the top tax rate is nearly 9 percent. People who live in New York City or California have a top tax rate above 10 percent.

What's more, incomes and housing costs are generally higher along the east and west coasts, which boosts their state income and property tax obligations, as well as how much mortgage interest they have to deduct.

The low housing costs in central Illinois, combined with relatively low (at least for now) state and local taxes, means that this change won't affect most homeowners and those that it does affect will be made better off. For instance, only 22 percent of all homeowners in Peoria County itemize their taxes, compared to 30 percent nationwide. That means that 78 percent of all Peoria

taxpayers — those who do not itemize — will unambiguously be made better off, since the larger standard deduction reduces their taxable income.

What's more, most of the taxpayers who do currently itemize will be made better off with the larger standard deduction. For instance, consider a family in the Dunlap school district with a \$300,000 house and a \$250,000 mortgage with a household income of \$150,000 and donations of \$1,000 a year to their church.

Their mortgage interest, property tax bill and state income tax liability add up to less than \$25,000, meaning that they would be made better off by tax reform. People above this threshold might lose some from the loss of deductions, but with lower tax rates across the distribution, a proportion of those people will come out ahead, as well.

In Mossville, my hometown, only 9 percent of all homeowners itemize their taxes. Their affordable home prices and (somewhat) moderate property taxes means that doubling the standard deduction will reduce practically everyone's taxes there.

It's also worth noting that the current tax breaks given to homeowners do not help the people who actually need assistance to buy a home. A tax subsidy that goes up sharply with income and home value and does not even help over half of all homeowners — the less wealthy half — is economically useless.

Tax reform may very well make some taxpayers a little worse off. Luckily for the residents of central Illinois, nearly all such people live elsewhere.

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