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On The House: Tax break for mortgage interest losing support

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Here’s an idea: Taxpayers should underwrite rich Americans’ purchase of $1 million homes and vacation homes.

Sounds crazy, yet that’s exactly what happens every year with the mortgage-interest deduction, a real-estate sacred cow for a century.

With President Donald Trump’s pledge for comprehensive tax reform, voices from across the political spectrum are saying it’s time to examine the deduction.

“The mortgage-interest deduction has to be on the table,” said Chris Herbert, managing director of Harvard’s Joint Center for Housing Studies.

A few weeks ago, Herbert spoke at a Harvard housing workshop that included a mix of political voices who agreed that the deduction needs to be eliminated or changed.

“The mortgage-interest deduction, more than ever, is being considered for reform,” said Diane Yentel, president of the National Low Income Housing Coalition.

Shaun Donovan, secretary of the Department of Housing and Urban Development under President Barack Obama, agreed that the time is right to look at the deduction.

Scott Keller, who served as senior adviser to Trump’s transition team and to new HUD Secretary Ben Carson, acknowledged that the deduction is “is under consideration.”

Why so little support — beyond the real-estate industry — for the deduction?

For starters, the deduction costs the federal government about $80 billion a year. As Yentel notes, that’s $80 billion that could be spent helping those who can’t afford homes instead of those who can.

Which leads to the next complaint about the deduction: It disproportionately benefits affluent Americans. The law allows interest to be deducted from taxes on mortgages up to $1 million and on two properties.

According to the Congressional Joint Committee on Taxation, 77 percent of households that benefit from the deduction earn more than $100,000 a year, and 35 percent earn more than $200,000. Most Americans — 70 percent — don't even itemize their tax deductions, which is the only way to enjoy the break.

Finally, there's not much evidence that the deduction actually helps the housing market. As many economists have pointed out, the homeownership rate in other nations, such as Canada, is as high as the U.S. rate without the deduction.

Some observers, such as Zillow CEO Spencer Rascoff and Chief Economist Stan Humphries, acknowledge that eliminating the deduction might cause home prices to drop. But in their book "Zillow Talk," the pair called for reforming the deduction because it artificially inflates the cost of homes, benefits the wealthy more than the needy and does little to improve homeownership.

As an illustration of the widespread opposition to the deduction, Yentel, the low-income housing advocate, teamed with Mark Calabria of the free-enterprise Cato Institute, to pen an article this year advocating reform.

The deduction, they concluded, 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."