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Trump administration weighs slashing mortgage deduction

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A tax break popular with homeowners and the real estate industry could take a hit as Republicans look for ways to pay for their tax reform plan.

Despite promises from the Trump administration in April that it would “protect the homeownership … deductions,” multiple sources tracking tax reform said that the cap on the mortgage interest deduction — currently set at the interest on up to $1 million of mortgage debt — could be lowered in tax reform.

That would be a slap in the face to an industry that strongly supported President Donald Trump during his presidential bid: He overwhelmingly won a straw poll by the National Association of Realtors during its annual meeting last year.

The topic came up during a White House roundtable with real estate industry representatives on Monday. National Economic Council Director Gary Cohn, a key decision-maker on tax reform, and his lead deputy on tax reform, Shahira Knight, led the meeting. Cohn previously told members of Congress that almost everything, including changes to the mortgage interest deduction, would be on the table.

“They’re willing to ruffle some feathers,” said one attendee of Monday’s meeting. “Everything was on the table,” including capping the deduction that the Trump administration has said it would preserve.

No final decision has been made yet, as Republicans work during Washington’s sleepy days of August to craft a reform plan that would be politically palatable and meet the criteria for the budgetary maneuver they plan to use to bypass Democrats who could hold up a bill in the Senate. But lowering the cap on the mortgage interest deduction would help offset tax cuts for individuals and businesses.

“I’ve seen proposals that drop it to $500,000,” said Rohit Kumar, lead on PricewaterhouseCoopers’ Washington tax policy team and a former senior staffer to Senate

Majority Leader Mitch McConnell, one of the six congressional and administration leaders negotiating tax reform.

After tabling a 20 percent business tax on imported goods and services, known as border adjustability, Republicans need ways to pay for tax cuts so they can minimize the amount those cuts would add to the deficit. The Tax Foundation, a tax policy think tank, estimates that after factoring in negative economic consequences, $308 billion could be saved over the 10-year budget window Republicans are working with by lowering the mortgage deduction.

Like many issues in tax reform, the mortgage interest deduction divides more along parochial than ideological lines. Conservatives and progressives alike criticize the deduction as inefficient and more useful for wealthy taxpayers than the working class it's supposed to help put in homes. But its popularity with homeowners in more expensive areas and with the real estate industry have helped it weather past attempts to cut or eliminate it.

“There's not a lot of conservative support for the mortgage interest deduction,” said Ryan Ellis, a conservative tax lobbyist.

One example: In February, Mark Calabria, then a financial regulatory expert with the libertarian CATO Institute and now Vice President Mike Pence's top economic adviser, and progressive housing activist Diane Yentel penned an op-ed in favor of reducing the mortgage deduction.

Conservative support for cutting the deduction, combined with smoke signals out of the White House that a reduction could be a part of a broader tax reform package, has the real estate and building industries concerned.

“[L]imiting the mortgage interest deduction amounts to a de facto tax increase on current or future homeowners while putting homeownership further out of reach for prospective buyers,” said National Association of Realtors President William Brown in a statement. “We would have strong objections over any effort to further cap or limit the deductibility of mortgage interest.”

Brown added that he hadn't seen a sure signal that capping mortgage interest would definitely be in a tax reform proposal, though a $500,000 cap was brought up as an option at the White House, according to those who attended the meeting.

Another part of the calculus for the Trump administration and congressional conservatives: Use of the deduction could dramatically drop if Republicans push through the doubling of the standard deduction that individuals can take instead of itemizing different tax write-offs.

Reducing the mortgage interest deduction "gets a little tricky because it depends on what else you're doing on the individual side,” said Kumar, who added that it's only on the table if Republicans follow through on their goal of doubling the standard deduction.

By some estimates, doubling the standard deduction could lower by 90 percent the use of the mortgage interest deduction by middle-class Americans, eroding much of the argument for keeping it.

That’s made the Republican proposal to double the standard deduction a proxy battle over the mortgage benefit. Even though the administration signaled it would keep the mortgage interest deduction in the tax code when Cohn and Treasury Secretary Steven Mnuchin announced Trump’s tax goals this past spring, the National Association of Realtors blasted the inclusion of doubling the standard deductions in those goals.

House Speaker Paul Ryan reiterated doubling of the standard deduction as a goal in tax reform during a meeting with conservative groups on July 28.

“By doubling the standard deduction and repealing the state and local tax deduction, [Trump’s] plan would effectively nullify the current tax benefits of owning a home for the vast majority of tax filers,” NAR said in a statement tied to the release of Trump’s tax goals.

Still, the industry hopes for a near-literal Trump card in the form of the president and his family's deep ties to the real estate industry.

“I’m not so sure it’s going to translate into legislative language,” said one lobbyist tracking the issue, citing Trump’s real estate business. The same lobbyist anticipated a “broad-based campaign” in opposition to any reduction in mortgage interest this fall if the proposal stays in the tax reform conversation.