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America's disappearing mortgage tax break few defenders

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WASHINGTON — One of America's most popular tax breaks is about to be rendered nearly useless. And there are few economists rushing to defend it.

The $64 billion mortgage-interest deduction has long been touted as fuel for U.S. homeownership. Yet as the real estate industry fights the Republican tax plan that's set to diminish its use, finding economic supporters of the perk is tough, even among affordable-housing advocates. John Weicher, a 79-year-old former official with the Department of Housing and Urban Development, says he's one of the few who believes in the break.

"We're about as common in the economics profession as Republicans are in the District of Columbia," said Weicher, now director of the right-leaning Hudson Institute's housing center in Washington, a city where only about 4 percent of voters chose President Donald Trump in last year's election.

While Republican lawmakers aren't directly killing the mortgage benefit, their tax plan would make it worthless for most homeowners by doubling the federal standard deduction, making it less likely that a typical person would itemize write-offs of any kind. Almost 38 million American households who would otherwise itemize would opt for the standard deduction under the new tax plan, according to Moody's Analytics Inc.

The bill's passage would be one of the greatest defeats for the National Association of Realtors, Washington's second-most powerful lobbying group, which had for decades successfully fended off criticism of the benefit. Detractors argue that the tax perk inflates home prices for first-time buyers and favors families with bigger incomes and bigger mortgages (including for discretionary vacation-home purchases).

It's "not an effective way to support homeownership," Mark Zandi, chief economist for Moody's Analytics, said of the mortgage-interest deduction, or MID. "I think my views on the MID are in the consensus."

Opposition to the deduction has created strange bedfellows.

In February, Diane Yentel, chief executive officer of the National Low Income Housing Coalition, and Mark Calabria, then working at the libertarian Cato Institute, co-wrote a column in The Hill calling for Congress to kill or reform the deduction.

“No longer a political ‘third rail,’ experts from across the ideological spectrum are increasingly calling it what it really is: a wasteful use of federal resources,” they wrote.

When the column ran, Sarah Mickelson, director of public policy for the NLIHC, said she got surprised emails from colleagues that her organization could find something to agree on with Calabria, who’s now the chief economist for Vice President Mike Pence.

“People were shocked,” Mickelson said.

The agreement only goes so far. While Mickelson’s group wants to reinvest the savings from limiting the mortgage-interest deduction into help for low-income renters, neither bill in Congress does that.

Both the Senate and House bills increase the standard deduction to $24,000 from $12,700 for a married couple filing jointly. The House plan also caps the home-loan write-off to mortgages up to $500,000 instead of the current $1 million limit. The plans have other elements that stand to disrupt the housing market, from shifts in capital-gains levies on home sales to limiting deductions on state, local and property taxes.

While housing lobbyists’ furious opposition to the tax overhaul didn’t emerge until the last few months, the industry’s tax breaks have been vulnerable for much longer, said Isaac Boltansky, a policy analyst with Compass Point Research & Trading.

“The die was largely cast the minute the GOP swept the 2016 election,” said Boltansky, who said getting rid of or lessening the value of itemized deductions was always going to be a target of a tax bill in order to save money for broader cuts.

Jon Gruber, an economics professor at the Massachusetts Institute of Technology, said he opposes the GOP tax plan because it adds to the deficit at the benefit of the wealthy, but that the mortgage-interest deduction isn’t something that should be saved. The perk would cost the government almost $80 billion by 2019, according to Congress’s nonpartisan Joint Committee on Taxation. The government could spend much less, for example, on a permanent tax credit for first-time buyers, Gruber said.

“If the goal is middle-class homeownership, you could just as well be throwing $100 billion in the ocean,” Gruber said. “At least then you’d have a landfill and you could build a house there.”

Gruber co-wrote a July working paper, “Do People Respond to the Mortgage Interest Deduction?,” using Denmark’s sharp cut in its mortgage deduction for top-rate earners in the late 1980s to make the case.

“The mortgage deduction has a precisely estimated zero effect on homeownership,” the paper concludes. “The largest effect of the mortgage deduction is on household financial decisions, inducing them to increase indebtedness.”

Lawrence Yun, chief economist of the National Association of Realtors, said he’s skeptical of studies that use very different mortgage systems in other countries to make conclusions about the

U.S. Without the deduction, the homeownership rate would drop by one or two percentage points, he said.

It’s “simple logic” that the deduction is one of many factors that encourages purchases, Yun said. A study that his group commissioned said home prices in the short run could decline 10 percent with the elimination of the deduction, as potential buyers stop factoring it in to how much they can pay.

Weicher, the benefit’s backer, said economists who oppose the mortgage-interest deduction tend not to have studied it themselves and merely take that view because it’s what other economists they know believe.

The last time the deduction was under assault, a few years ago, he was popular with newspaper opinion pages. He said he wrote op-eds that appeared in a handful of publications as they got interested in having columns, both pro and con, running side by side.

“Nobody else has an MID op-ed that takes the pro side,” Weicher said.