Lawmakers, economists spar over "wasteful" U.S. mortgage tax break

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WASHINGTON (Reuters) - The popular U.S. tax deduction for mortgage interest is wasteful and does little to spur home ownership, economists from across the political spectrum said at a congressional hearing on Thursday, but many lawmakers mulling a tax code overhaul were having none of it.

Congress is scrutinizing many tax breaks, including the one enjoyed by about 40 million Americans - mainly middle-class voters - for the home mortgage interest they pay.

The value of the deduction collectively is about $100 billion a year, according to the congressional Joint Committee on Taxation.

Experts from a free-market think tank, a liberal-to-centrist group and other organizations mostly agreed that the mortgage deduction is inefficient because it encourages debt and disproportionately helps those in the highest income brackets.

At the hearing, many lawmakers from both parties were skeptical of the economists' arguments, however, and warned against scrapping the tax break as a way to lower tax rates.

"Would it be just for us to say to working families, to middle-class families, that we are going to snatch the rug from under you?" said Representative John Lewis, a Democrat from Georgia.

As Congress inches toward possibly revamping the tax code for the first time since 1986, a wide range of tax breaks is being examined. In the House of Representatives, efforts are being led by Michigan Republican Dave Camp, chairman of the tax-writing Ways and Means Committee, which convened the hearing.

Eric Toder, an economist from the liberal-leaning Urban Institute and centrist Tax Policy Center, and Mark Calabria, an economist from the free-market think tank Cato Institute, both said the deduction is bad policy.

"Both theory and available evidence suggests it does little to encourage home ownership, but instead mostly encourages upper-middle households to buy larger and more expensive homes," said Toder.

Calabria, who backs scrapping the tax break altogether, said that a decline in housing prices would soften the blow.

"I'd rather pay less for the house quite frankly," Calabria said. "It is a subsidy for debt, not home ownership."

Representative Pat Tiberi, an Ohio Republican, cited his experience as a real estate agent to challenge some of the economists who spoke at the Ways and Means hearing.

"Never once did I have a client say to me, 'I want to buy this house because I can get a higher mortgage interest deduction,' " Tiberi said.

SECOND HOMES A COMPLEX ISSUE

The maximum amount of eligible mortgage debt for the deduction is currently $1 million for either a first or second home, or even a boat, and up to $100,000 on home equity loans.

Rob Dietz, an economist with the National Association of Home Builders, said the second-home issue is more complicated than it appears because many of the wealthiest owners of second homes own them outright without a mortgage.

"When most Americans think of second homes, thoughts typically go to expensive beach homes," Dietz told the panel.

The average household income of those who have a mortgage on a second home was about $71,000, according to the analysis by the National Association of Home Builders.

A December 2010 deficit-reduction study known as the Simpson-Bowles report proposed lowering the limit on eligible mortgage debt to $500,000, as well as killing the deduction for home equity loans and second homes. The report was commissioned by Obama, but he did not embrace it.

(Editing by Kevin Drawbaugh and Jan Paschal)