THE HILL

Tax writers tread cautiously around mortgage interest break

By: Bernie Becker – April 25, 2013

Tax writers on both sides of the aisle sounded skeptical about rolling back the deduction for home mortgage interest on Thursday, underscoring the challenge Washington faces in giving the tax code a thorough rewrite.

Lawmakers at a House Ways and Means Committee hearing called the deduction a lifeline for the middle class and a helping hand toward the American dream of homeownership.

And while both Democrats and Republicans said that the tax code needs to be made simpler, few lawmakers showed any appetite for making radical changes to the mortgage deduction, which is both popular and expensive to maintain. The tax break cost the government an estimated $68 billion in 2012, according to the nonpartisan Joint Committee on Taxation (JCT).

Ways and Means Chairman Dave Camp (R-Mich.) said at the hearing that real estate taxes was “an area that needs careful, thoughtful review” and that the mortgage interest deduction had helped many potential homeowners reach their goal.

“While I often joke that the code is more than 10 times the size of the Bible with none of the good news, what I should also add is that not everything in the code is bad,” Camp said in his opening statement.

The mortgage interest deduction has been popular with both lawmakers and voters alike for decades, with the tax break having emerged unscathed when President Reagan and Congress overhauled the tax code in 1986.

The JCT says that the tax break will cost an estimated $364 billion in all between 2012 and 2016, making it one of the most expensive preferences in the code. Other big-ticket incentives, like the exclusion for employer-sponsored health insurance and the deduction for state and local income taxes, also have broad support.

The hearing illustrated the difficulty that Camp and Senate Finance Chairman Max Baucus (D-Mont.) would have in turning the general desire to revamp an unpopular tax code into legislation. In order to lower rates, lawmakers are looking to reduce and eliminate popular provisions, some of which are backed by powerful lobbying interests. Camp has called for an extensive review of the tax code and has set the aggressive target of reducing the top individual and corporate tax rate to 25 percent — a feat Democrats don’t believe is possible without shifting more of the tax burden to middle-class taxpayers.

But Camp noted Thursday that the offsets needed to lower rates didn’t solely have to come from eliminating tax breaks, saying that around 40 percent of the savings came from other areas in the 1986 reform bill.

On Thursday, lawmakers in both parties noted that the majority of the benefits — around two-thirds in all in 2012 — from the mortgage interest deduction flow to households making less than $200,000 a year. According to the JCT, only around 14 percent of the returns that claimed the deduction were from households making more than $200,000 a year.

“I think still trying to get people into homeownership is a desirable goal,” said Rep. Richard Neal (Mass.), the top Democrat on the Ways and Means subcommittee that deals with taxes. “I think that we need to be mindful of what broadening the base could mean.”

“At its core, this benefits middle-class, working Americans,” Rep. Tim Griffin (R-Ark.) added. “A lot of people count on this provision.”

Rep. Sandy Levin (Mich.), the ranking Democrat at Ways and Means, said those statistics showed the stark contrast with provisions like the preferential rates for capital gains, where most of the benefits flowed to those making seven figures a year.

“Let’s be clear,” Levin said. “There are many egregious loopholes in the tax code. But the main provisions incentivizing homeownership are policies, not loopholes.”

Gary Thomas, the president of the National Association of Realtors, also pushed back on suggestions that the deduction should not cover second homes and the amount of mortgage covered under the incentive should be sliced from $1 million to $500,000. But scholars testifying at Thursday’s hearing were more skeptical that the tax break broadly promotes homeownership, with Eric Toder of the Urban-Brookings Tax Policy Center saying that the deduction mostly allows those who didn’t need a subsidy to become homeowners to buy a bigger house.

Less than a quarter of the deduction’s benefits, the JCT says, went to households making less than $100,000 in 2012, and the deduction is only available to the roughly one-third of households that itemize.

The average benefit for those making more than $200,000 a year was roughly $5,000 in 2012, while the average overall benefit was around $2,000.

Mark Calabria of the libertarian Cato Institute also expressed concern that the deduction gave consumers extra motivation to pile up debt, and that tax policies for encouraging homeownership could instead incentivize home equity.

“My primary point today is that if we care about homeownership, we should not be tying it to a mortgage. We should be tying it to homeownership,” Calabria said. “That’s what the discussion should be about — not about having a bigger mortgage.”