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## Weigh In: Should Congress Extend the First-Time Buyer Tax Credit?

All eyes are on Congress as it considers whether to extend the \$8,000 first-time home buyer tax credit, or to let the incentive expire. Kenneth Harney [notes](#) that Congress may be offering several clues about what it will do.

Already, one influential House committee looks set to pass a 12-month extension of the tax credit for service members and diplomatic and intelligence personnel who are posted abroad. But the high-cost of an extension for all has led Senate Democrats to propose a compromise: a six-month extension that would keep the credit at \$8,000 and limited, as it is now, to first-time buyers. The real-estate lobby wants to boost the credit to \$15,000 and expand it to all buyers.

In the interim, economists and analysts are making the case for and against the tax credit. On one side are economists including Mark Zandi of Moody's Economy.com, who [argues](#) that expanding the tax credit to all buyers could have a bigger impact once the job market heals and more people are able to buy homes.

Independent housing economist Thomas Lawler is in the other camp. He calls the idea of an expansion "crazy" and says it shouldn't be surprising that tax credit has boosted sales. "When the government provides a huge tax subsidy for the purchase of something ... folks will purchase more of that 'something' than they otherwise would have." He continues:

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*The trade groups' strategy is similar to that of earlier this year: ask for something ridiculously egregious (and "pay off" a few folks in Congress to sponsor something huge), and then "agree" to something less.*

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Getty Images

Did the tax credit already capture pent-up demand from first-timers?

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*Of course, in the current environment home prices have, in most areas of the country, finally adjusted back down to more “normal” levels relative to incomes/rents; the government is providing massive resources to ensure that mortgage rates remain low; and the biggest obstacle to a rebound in household formations that would help alleviate the glut of housing (combined, of course, with continued low production of new housing, which is critical to a quick recovery) is the job outlook.*

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*The housing tax credit is an enormously inefficient use of government resources, and it does not really focus on what the economy needs: more job creation, and a return to “normal” growth of households.*

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Here’s a sampling of what others are saying:

***Why the homebuyer subsidy needs to die a natural death*** ([The Big Money](#)): Never mind end-of-life care discussions for senior citizens. We need to have one right now about the homebuyer tax credit. The powers that be need to let this program die with dignity when its time comes rather than letting it linger.

***Help may bring another bubble*** ([Las Vegas Sun](#)): Some economists across the political spectrum question whether the tax credit is good policy. “It’s terrible policy,” says Mark Calabria of the libertarian Cato Institute. “It’s awful policy,” says Andrew Jakabovics, associate director for housing and economics at the liberal Center for American Progress. “It’s incredibly expensive. It’s not well targeted.”

***The cost of a tax credit per additional units sold*** ([Calculated Risk](#)): This level of first-time buyers is completely unsustainable—even if another tax credit is enacted. There was significant pent up demand from potential first-time buyers who were priced out of the market in 2004-2006, and then were afraid to buy as prices fell. But demand from these buyers will wane.

***Should the home-buyer tax credit be allowed to expire?*** ([Time Magazine](#)): This tax break probably isn’t good policy, especially now that we seem to have left the darkest part of the housing-market woods.

Readers, what do you think? Should Congress let the tax credit expire, extend it, or expand it?

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