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Home deductions enrich the rich

With tax credits instead, middle class would benefit

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By Peter Dreier

EVERYONE'S TALKING about cutting welfare for the poor. But I want to talk about cutting welfare for the wealthy. Specifically, we should cut the "mansion subsidy" — the government tax break that goes to rich homeowners. We should replace it with a progressive tax credit to help hard-working middle-class families achieve the American dream of homeownership.

Don't we already have a tax break for homeowners? Yes, but most of it goes to the wrong people.

Tax breaks for homeowners — the deduction of mortgage interest — cost the federal government \$51 billion a year. That would be OK if most of it helped the middle class. But it doesn't. Those with the highest incomes and the most expensive homes (including second homes) get the largest subsidy.

Almost half of that \$51 billion homeowner subsidy goes to the 5 percent of taxpayers with incomes of more than \$100,000. About 17 percent of this subsidy goes to the wealthiest 1 percent of taxpayers with incomes of more than \$200,000, some living in mansions.

Contrary to real estate industry rhetoric and lobbying, these deductions aren't the salvation of the middle class. Only one-fifth of middle-class households — those with incomes between \$30,000 and \$50,000 — received any homeowner subsidy. As a result, 71 percent of households with incomes above \$200,000 receive a mortgage tax break, which averages \$8,500 a year. In contrast, less than 3 percent of house-

holds below \$30,000 get any mortgage subsidy, and they get less than \$500 a year.

Part of the job of the Department of Housing and Urban Development is to help house the poor. But that \$51 billion in homeowner tax breaks is double the entire HUD budget. Less than one-third of the eligible 13.8 million low-income renter households receive any federal housing assistance. In other words, more federal housing subsidies go to the affluent than to the troubled middle class or to the desperately poor. And the Congressional Joint Tax Committee projects that the mortgage-interest subsidy will reach \$68 billion by 1999.

When the tax code was enacted in 1913, it made some sense to allow taxpayers to deduct mortgage interest because they used personal debt to finance small businesses and family farms. But the deduction grew, almost by accident. By the time Brookings Institution economists began suggesting in the 1960s that the homeowner deduction was inequitable and unnecessary, the real estate industry was already declaring it sacrosanct.

THE POLITICAL action committees of the National Association of Realtors, the Mortgage Bankers Association and the National Association of Home Builders treat the homeowner tax break as if it were the lynchpin of the American dream. This is nonsense. Neither Canada nor Australia has a homeowner deduction, and the homeownership rate is about the same as ours — approximately 65 percent of all households.

Of course, homeownership is a fundamental part of America's promise of prosperity. But the current system is in desperate need of reform. It subsidizes the rich to purchase huge homes with-

out helping most working families buy a small bungalow.

We should scrap the current homeowner deduction and try a progressive homeowner tax credit instead. It would work just like the successful earned-income tax credit for low-wage workers, but it would reach into the middle class. It involves no bureaucracy. Just fill out your tax return and get a refund for owning a home.

THE TAX credit would be available to all families each year — including those moderate-income households that currently do not itemize their deductions. Tying the credit progressively to income would limit subsidies for the wealthy, but preserve them for the middle class. Best of all, it would add a large number of families who currently do not benefit. The credit could be adjusted for regional housing costs in order to avoid penalizing homebuyers and homeowners in high-cost areas.

The wealthy will continue to buy homes — with or without a tax subsidy. But by turning the mortgage-interest deduction into a progressive tax credit, we could spend the same \$51 billion and help a lot more families become (and remain) homeowners.

Also, by increasing the demand for homes, a progressive homeowner tax-credit system would help the housing industry — builders, brokers and mortgage lenders. The ripple effects would create more jobs, improve the nation's economy and add to local tax bases. The current mansion subsidy is wasteful and inefficient. A progressive system is the best way to help hard-working middle-class families achieve homeownership.

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