

# Cut The Homeowner's Deduction It Primarily Subsidizes The Wealthy With Expensive Homes.

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President Bush says he wants to cut entitlement programs for the rich, help

families buy homes and stimulate homebuilding and economic recovery. Here's a proposal that will do all three.

Bush and Congress should eliminate the current homeowner deduction and substitute a progressive tax credit for homeowners. This is a more efficient, fair and pro-business approach than the current system. Some have dubbed the existing approach the "mansion subsidy" because it disproportionately subsidizes wealthy Americans who can afford to purchase homes without it.

Most Americans think that federal housing assistance is a poor people's program. In fact, less than one-fifth of all low-income Americans receive federal housing subsidies. In contrast, more than three-quarters of wealthy Americans - many living in mansions - get housing aid from Washington.

The federal tax code allows all homeowners to deduct all property tax and mortgage interest when calculating their income taxes. This subsidy (or "tax expenditure") cost the federal government more than \$47 billion in 1991. The homeowner subsidy will reach \$65.2 billion by 1995.

This subsidy goes primarily to those with the highest incomes and the most expensive homes. An analysis of data from Congress' Joint Taxation Committee shows that about one-third of the \$47 billion homeowner subsidy goes to the 3.8 percent of taxpayers with incomes of \$100,000. About 12 percent of this subsidy goes to the wealthiest 1 percent of taxpayers with incomes greater than \$200,000.

Wealthy households are most likely to own homes and to itemize deductions. Half of all homeowners do not claim deductions at all. Tenants, of course, don't even qualify for the subsidy. As a result, more than 80 percent of households with incomes above \$200,000 receive a homeowner tax break, while less than 1 percent of households below \$10,000 get this subsidy.

Meanwhile, Bush has continued the Reagan-era policy of dismantling federal housing programs for the poor. Since 1980, HUD housing assistance has been slashed by more than 70 percent (from \$33 billion to \$10 billion), while the homeowner deduction more than doubled (from \$22 billion to \$47 billion).

Everyone supports the American dream of homeownership - a fundamental part of this nation's promise of prosperity. No one wants to eliminate homeowner subsidies for middle-class families. But the current system - which subsidizes the rich to purchase huge homes without helping working families without sufficient income to itemize their deductions - is in desperate need of reform.

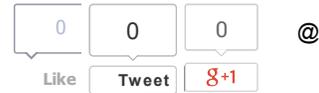
The biggest obstacle to reform is the real estate industry, which has used its political muscle to protect the existing homeowner tax break. The industry views it as the linchpin of the American dream. This is nonsense. Neither Canada nor Australia has a homeowner deduction, and their homeownership rates (about 65 percent of all households) are about the same as ours.

Nor has this tax break boosted homeownership during the last decade. In fact, our homeownership rate has steadily declined during this period, especially for young families. According to a new Census Bureau study, 71.2 percent of families headed by someone aged 25 to 34 - and 91 percent of all current renter households - cannot afford to buy a home. Because families cannot afford to buy homes, the housing industry is now in its worst slump since World War II.

What to do?

In 1986, Congress limited the tax break to just two homes for each family, the next year, it capped the subsidy at \$1 million of mortgage interest payments. Since then the Congressional Budget Office (CBO) each year has recommended extending these reforms in two ways: First, eliminate deductions for second homes, which would net a \$300 million annual tax savings. Second limit mortgage interest deductions to \$12,000 per single return or \$20,000 per joint return, adjusted for inflation. This would generate \$1.7 billion annual in tax savings, and effect less than 2 percent of all taxpayers.

While these reforms reduce subsidies for the wealthy and reduce the deficit, they do nothing to address our current housing and jobs problems.



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To increase homeownership, catalyze home-building and generate jobs and economic recovery, we suggest scrapping the homeowner deduction entirely and trying an entirely new approach - a homeowner tax credit.

A progressive tax credit would encourage homeownership more effectively than the mortgage deduction. The wealthy would continue to purchase homes with or without a tax subsidy. Because housing demand is more elastic at the bottom and middle parts of the economy, a homeowner tax credit could make the difference between renting and owning for millions of working families now shut out of the American Dream.

The tax credit would be available to all families - including those moderate-income households that do not itemize their deductions and so cannot take advantage of the current tax break. Capping the credit (for example, at the levels recommended by the CBO), or tying it progressively to income, would limit subsidies for the wealthy, while preserving them for the middle class. But it would also add a large number of families who currently do not benefit.

Moreover, by increasing the effective demand for homes by working-class

families, a homeowner tax credit system would help the home-building industry (as well as brokers and mortgage lenders) create jobs in the construction industry and have significant ripple effects throughout the economy, and add to local tax bases.

There is a growing consensus that the nation must assist the millions of

families who cannot afford market-rate rents or home prices. The current way we distribute housing subsidy funds is wasteful and unfair.

Let's stop subsidizing the rich to live in mansions and assist working and middle-class families achieve the American dream of homeownership.

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