# Principles for Reform: Housing and Homeownership Tax Expenditures

## About the Tax Alliance for Economic Mobility

The Tax Alliance for Economic Mobility, co-led by CFED and PolicyLink, convenes racial justice advocates, asset-building advocates, tax reform experts, and researchers to identify near- and longer-term policy priorities to expand savings and investment opportunities for lower-income households through reform of the U.S. tax code. The Alliance includes a coalition of national organizations that have agreed on shared principles and are working to educate and engage their networks about why equitable, inclusive, and progressive tax reform is crucial to building the long-term security of families, communities, and the national economy.

### Reform Principles Snapshot

1. Ease barriers to low- and moderate-income renters becoming homeowners.
2. Increase benefits for renters.
3. Help communities of color build wealth through homeownership.
4. Reduce subsidies for mortgage debt and larger homes owned by high-income households.

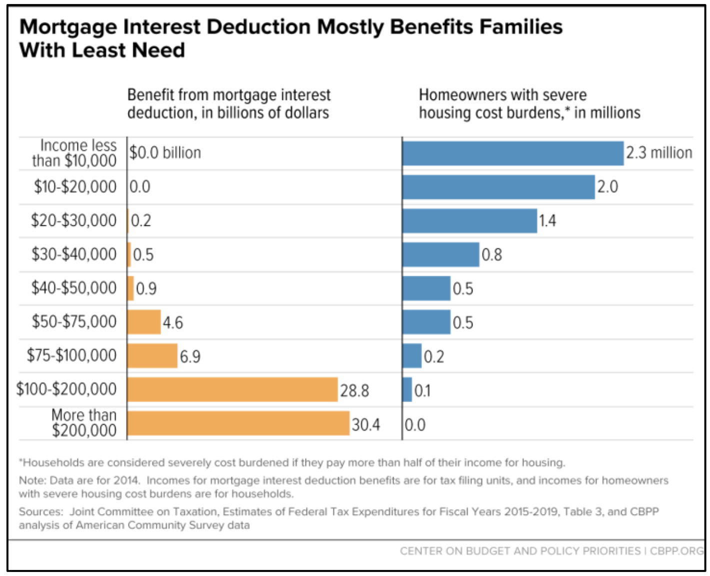
The Tax Alliance convenes a working group that focuses specifically on access to housing and homeownership. The members of the working group have looked at housing tax benefits and the significance of the Mortgage Interest Deduction. We believe that reforms to this deduction, which primarily benefits the wealthy, could enhance access to affordable housing and increase homeownership for low and moderate income Americans. We, therefore, lay out the challenges facing the mortgage interested education as it relates to low- income people, the role that it plays in expanding the racial wealth gap, and principles for reform that would improve housing access for all.

The principles outlined in this document were developed by the Housing & Homeownership Working Group and may not reflect the views of individual members of the Tax Alliance for Economic Mobility.

## The Shortfalls of the Mortgage Interest Deduction

Congress is justified in investing in homeownership programs, which can have positive impacts on individuals, communities, and the economy. One of the largest of these programs is the Mortgage Interest Deduction (MID), a homeownership subsidy provided through the tax code. In 2015, the MID cost the federal government nearly $60 billion.[i] By comparison, the budget of the Department of Housing and Urban Development (HUD)--which funds low-income housing assistance and community development—was just $45 billion.

Unlike HUD's programs, the MID does not focus support on low- and moderate-income families. Only one out of four taxpayers receive any benefit from the MID, and these households tend to have higher income. Even among households that do benefit, higher-income households get greater value out of each dollar deducted and tend to claim the deduction for much larger homes.[ii] As a result of these structural program features, the average MID benefit for a tax filer in the top 1% of the income distribution was nearly $5,000 in 2016, whereas the average MID benefit for a tax filer in the middle quintile was just over $100.[iii]




Further, no evidence exists that the MID encourages renters to become owners. Rather, the MID's documented effect has been to encourage those who would purchase homes to take on additional debt in order to finance larger homes. While home prices increase, homeownership drifts further and further out of reach for lower-income renters, who receive relatively little support from rental assistance programs and no support from the MID.

In short, the MID fails to expand economic mobility because it fails to achieve its goal of boosting homeownership, and because it disproportionately benefits high-income, predominantly white households. Specifically, the MID suffers from three flaws:

1. As an itemized deduction, the MID excludes most low-income households and increases in value as a taxpayer's income increases
2. The MID directly subsidizes debt and larger homes rather than homeownership itself
3. The MID provides little benefit to communities of color

**Homeownership and the Racial Wealth Gap**

We agree with MID defenders that increasing homeownership is a goal worthy of federal investment. Even in the wake of the housing market collapse, homeownership remains a key component of the American Dream. Homeownership has positive impacts on family economic security, child development, and community stability. For most Americans, homeownership is *the* pathway to building wealth. A family's home is typically their largest asset, accounting for a large portion the household's total net worth.

But homeownership isn't an equally powerful engine for all Americans. Black and Latino households are around 40% less likely than white households to own their own home.[iv] Adding to the disparity, the homes owned by blacks and Latinos tend to be worth less.[v] This disparity in homeownership is the single largest contributor to the growing racial wealth gap,[vi] which has left households of color owning ten cents or less for every dollar owned by whites.[vii]

In addition to disproportionately benefiting high-income households, the MID also exacerbates this racial wealth gap. Trulia found that African American households were 57% less likely and Hispanics 51% less likely to have a mortgage than white households.[viii] Recent research by the Tax Policy Center has also found that MID benefits are much more likely to flow to predominantly white communities than communities of color.[ix]

**Principles for Reform**

The MID is an upside-down federal housing subsidy—it overwhelmingly benefits wealthier homeowners over lower-income homeowners, while excluding renters altogether. Researchers and advocates have proposed various options for making the MID more equitable, including converting the MID into a refundable credit accessible to low-income homebuyers, reforming the MID to focus support on first-time homebuyers, redirecting the MID to incentivize homeownership rather than mortgage debt, reducing MID support for large homes, and using savings from MID reforms to support renters. In short, there are several paths forward that would make federal housing tax credits much more effective and equitable, and reforms to the MID could produce enough savings to boost homeownership and affordable housing more broadly.

As policymakers evaluate reform options, they should focus on improvements that will expand economic opportunity. To accomplish this goal, MID reforms should:

1. **Ease barriers to low- and moderate-income renters becoming homeowners.** MID reforms should ensure that federal homeownership benefits effectively assist families who wish to become homeowners and target support to lower-income households who can benefit the most.
2. **Increase benefits for renters.** MID reforms should be accompanied by a renters' credit or other measures to ensure that renters — including those with incomes below the poverty line — do not miss out on housing tax benefits merely because they cannot afford or don't choose to become homeowners.
3. **Help communities of color build wealth through homeownership.** MID reforms should ensure that communities of color are not excluded, even unintentionally, from federal homeownership benefits.
4. **Reduce subsidies for mortgage debt and larger homes owned by high-income households.** MID reforms should ensure that upper-income families do not receive a disproportionate share of federal homeownership benefits.

While economic mobility stagnates, the racial wealth gap grows, and millions of families lack access to affordable housing. Making such a significant investment in a program that benefits only a portion of the population that is disproportionately white and high-income is inefficient and inequitable. These high-level principles for MID reform can lead the way to a more equitable program that will fulfill the same objective of expanding homeownership and affordable housing, while also boosting economic mobility throughout the country.

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[i] Office of Management and Budget, *Tax Expenditures* (Washington, DC: OMB, 2016), 14.
[ii] Will Fischer and Chye-Ching Huang, "Mortgage Interest Deduction is Ripe for Reform", *Center on Budget and Policy Priorities,* June 25, 2013, http://www.cbpp.org/research/mortgage-interest-deduction-is-ripe-for-reform.
[iii] "Tax Benefit of the Deduction for Home Mortgage Interest by Expanded Cash Income Percentile", *Tax Policy Center*, August 2016, http://www.taxpolicycenter.org/model-estimates/individual-income-tax-expenditures-july-2016/t16-0164-tax-benefit-deduction-home.
[iv] Kasey Wiedrich, Lebaron Sims, Jr., Holden Weisman, Solana Rice and Jennifer Brooks, *The Steep Climb to Economic Opportunity* (Washington, DC: CFED, 2016), 11-12.
[v] Merrit Gillard, *Homeownership Is Still Out of Reach for Millions of Households* (Washington, DC: CFED, 2016), 3.
[vi] Thomas Shapiro, Tatjana Meschede and Sam Osoro, *The Roots of the Widening Racial Wealth Gap: Explaining the Black-White Economic Divide*, (Waltham, MA: Institute for Assets and Social Policy, 2013), 6.
[vii] Rebecca Tippett, Avis Jones-DeWeever, Maya Rockeymoore, Darrick Hamilton and William Darity, Jr, *Beyond Broke: Why Closing the Racial Wealth Gap is a Priority for National Economic Security* (Washington, DC: Center for Global Policy Solutions, 2014), 14
[viii] Felipe Chacon, "Minorities, Women Losing Out on Homeownership and Tax Breaks," *Trulia*, April 12, 2016, https://www.trulia.com/blog/trends/minorities-women-mortgage/.
[ix] Benjamin H. Harris and Lucie Parker, *The Mortgage Interest Deduction Across ZIP Codes* (Washington, DC: UrbanBrookings Tax Policy Center, December 2014), 5.