PRINCIPLES FOR REFORM: HOUSING AND HOMEOWNERSHIP TAX EXPENDITURES

About the Tax Alliance for Economic Mobility

The Tax Alliance for Economic Mobility, chaired by Prosperity Now, convenes racial justice advocates, asset-building advocates, tax reform experts and researchers to identify near- and long-term policy priorities to expand savings and investment opportunities for lower-income households by reforming the U.S. tax code.

As a coalition of national organizations, the Tax Alliance has agreed on shared principles and are working to educate and engage its networks about why equitable, inclusive and progressive tax reform is crucial to building the long-term security of families, communities and the national economy.

The Tax Alliance convenes a working group that focuses specifically on access to housing and homeownership. The members of the working group have examined housing tax benefits and the significance of the mortgage interest deduction (MID), which primarily benefits the wealthy.

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

The Shortfalls of The Mortgage Interests Deduction (MID)—The Largest Homeownership Tax Expenditure

Even in the wake of the housing market collapse, the federal government is justified in investing in homeownership programs, as homeownership remains a key component of the American Dream. In fact, for most American families, the home is the largest asset, making homeownership the pathway to building wealth. Recognizing the social and economic importance of homeownership, including the positive impacts it can have on family economic security, child development and community stability, each year the federal government spends hundreds of billions of dollars through tax subsidies and tax breaks to support families in becoming homeowners. In 2017, that amounted to over $260 billion dollars.¹

Within that total, one of the largest tools the federal government uses to directly invest in homeownership is the Mortgage Interest Deduction (MID), which in 2017 cost taxpayers more than $65 billion.² To put in perspective how much the federal government dedicates to support homeownership through the MID, consider that it spent about $10 billion less in 2017 to fund the entire Department of Housing and Urban Development (HUD),³ which is responsible for overseeing and funding low-income housing assistance and community development programs, among other activities. Yet, unlike HUD’s programs, the MID does not focus on low- and moderate-income families. In fact, only one out of four taxpayers receive any benefit from the MID, and these households tend to have higher income.

Overall, the top 40% of households, earning incomes of $151,000 or more, received nearly 93% of the MID’s benefits in 2017.⁴ By comparison, households in the bottom 40%, earning just under $50,000, received just over 1% of the MID’s benefits that year. For the remaining 20% of households, earning just over $85,000, nearly 7% of the MID’s homeownership support in 2017 benefited them.

On average, the distribution of the MID’s benefits in 2017 translated to more than $2,500 in homeownership support for the top 40% of households, while households in the top 20% received just under $2,100. In stark contrast, the bottom 40% of
households received just $20 in homeownership support from the MID that year, with the bottom 20% receiving none of those dollars. The remaining 20% of households, those in the middle of the income distribution, received $150 in homeownership support from the MID in 2017.

Even among households that do benefit, higher-income households receive a greater share of the value for each dollar deducted as they tend to claim the deduction for much larger mortgages.6 To this point, despite receiving just over 8% of the MID’s total benefits in 2017, households in the top 1% of the income distribution received an average MID benefit of more than $5,000 that year.

Beyond providing greater support to wealthy homeowners, there is no evidence that the MID encourages renters to become homeowners. Rather, the MID’s documented effect has been to encourage prospective homeowners to incur additional debt in order to finance more expensive homes. While home prices increase, homeownership drifts further and further out of reach for low- and moderate-income renters, who receive relatively little support from rental assistance programs and no support from the MID.

The MID Fails to Address the Homeownership Gap Facing Households of Color, Further Driving the Racial Wealth Divide

We agree with defenders of the MID that increasing homeownership is a goal worthy of federal investment. But homeownership is not an equally powerful engine for all Americans. Due, in large part, to a long history of discriminatory policy choices and actions in the marketplace over multiple generations, the homeownership rate for communities of color today (45%) is more than a third lower than it is for White households (71.2%).8 For single women of color, who have long faced a host of structural and institutional barriers to building wealth,7 this problem is even more pronounced. Their homeownership rate is much less than that of single men (and communities of color overall), and the value of their homes also tends to be worth less than homes owned by single men.8

As a result, while other factors are certainly contributing to a growing racial wealth gap,9 the gap in homeownership is a significant reason why the overall wealth of households of color ($17,600) and the wealth of single women of color—Black ($17,100) and Hispanic ($15,820)—is just a fraction of the wealth owned by White households ($127,200)10 and single White women ($85,400).12

Given that the MID is structured to support existing homeowners, while also encouraging wealthy homeowners to take on more debt to maximize their benefits, it does little to address homeownership and wealth gaps facing communities of color. In fact, according to recent research by the National Low-Income Housing Coalition (a member of the Tax Alliance for Economic Mobility) and the Institute on Assets and Social Policy, the MID is exacerbating the racial wealth divide.13 Their research found that households of color are less likely to own a home with a mortgage than White households, thus increasing the likelihood that MID benefits flow to predominantly White communities rather than communities of color. Their research also found that 78% of the benefits from the MID went to White households in 2017, despite only representing 67% of all households. By comparison, Black and Latino households received 6% and 7%, respectively, of the MID’s benefits that year—figures that total about half their share of nation’s households.14 Relatedly, due to lower homeownership rates and a lower likelihood of owning a home with a mortgage among single women, researchers at Trulia have found that the MID is also exacerbating gender inequality.15

Lastly, because the MID’s focus is on supporting existing homeowners, none of its vast resources are going towards renters who either aspire to become homeowners or find themselves cost-burdened, meaning that they are spending 30% or more of their income on housing related expenses, including rent and utilities. In the absence of additional housing supports, burdensome rent creates a considerable barrier for would-be homeowners to build up modest savings, much less enough for a down payment on a home.

Despite Recent Changes to the Tax Code, Housing and Homeownership Tax Expenditures Remain Inequitable

As we have highlighted in this brief, the tax code is the nation’s largest wealth-building tool, spending hundreds of billions of dollars each year to help families achieve financial security by supporting their ability to build assets, including through
homeownership. And as we have also covered throughout this brief, most of those asset-building tax subsidies and tax breaks—including those focused on the worthy goal of supporting and increasing homeownership—go overwhelmingly to help wealthy households building more wealth. Even worse, many of these provisions do little to bridge the racial wealth gap facing households of color.

Despite substantial changes to the federal tax code, the TCJA did little, if anything, to make it more equitable, inclusive and progressive for households of color and working families. In fact, because the TCJA favors income earned through passive means—such as investment—rather than wages, it mostly benefits wealthy White households. It leaves very little for working households, especially those of color, to build financial security and wealth.

Recent research from Prosperity Now and the Institute on Taxation and Economic Policy (ITEP) found that of the nearly $275 billion in tax cuts within the TCJA, $218 billion (80%) go to White households, and more than 40% go to White households in the top 5% of earners (with incomes of $243,000 or more). As a direct result of this skew, White households will receive an average of $2,020 in cuts from the TCJA while Latino and Black households will receive $970 and $840, respectively. At a time when households of color face a wealth gap that leaves them with a fraction of the wealth owned by White households—even while our country continues to move towards a majority-minority nation—we should be investing in the wealth-building potential of communities of color, not underserving it.

![Share of Overall Tax Returns Compared to Share of Total Tax Cuts from the Tax Cuts and Jobs Act](image)

**SOURCE** | Race, Wealth and Taxes: How the Tax Cuts and Jobs Act Supercharges the Racial Wealth Divide, Prosperity Now, ITEP

While the TCJA does little to alleviate overall economic inequality and racial wealth inequality, we would be remiss if we did not acknowledge that by lowering the amount of the MID a homeowner can claim from $1 million to $750,000, the TCJA took a significant step to reform one of the most upside-down federal housing subsidies available within the U.S. tax code. However, although this was a meaningful step towards creating a more equitable tax code, other changes in the TCJA, such as the doubling of the standard deduction, have made the MID even more concentrated among higher-income households, which are more likely to itemize their deductions.

Ultimately, while the MID has been improved upon, it still fails to expand economic mobility because it does not boost homeownership, and it disproportionately benefits high-income households. Specifically, the MID continues to suffer from three flaws:

1. As a deduction, the MID excludes most low-income households that do not itemize deductions 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 or working families.

At the same time, any benefits low- and moderate-income households would enjoy from reforms already made to the MID, as well as to the overall tax code, could be offset if cuts are made to critical programs that support health, housing and food assistance, due to the law’s $1.9 trillion dollar cost. Ultimately, while the changes made to the MID in 2017 are a step in the
right direction, we continue to believe that additional reforms to this tax provision are necessary in order to enhance access to affordable housing and increase homeownership for low- and moderate-income Americans, especially households of color.

Principles for Reform

As we have highlighted previously, the MID is an inequitable tax expenditure, as it overwhelmingly benefits wealthier, mostly White homeowners over low- and moderate-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 homeowners, reforming the MID to focus support on first-time homebuyers, redirecting the MID to subsidize homeownership rather than mortgages, reducing MID support for large homes and second homes, and using savings from MID reforms to support renters.

In short, there are several paths forward that would make federal housing investments much more effective and equitable, and further reforms to the MID could produce enough savings to boost those investments more broadly. As policymakers evaluate additional reform options to the MID, they should focus on improvements that will expand economic opportunity. To accomplish this goal, additional reforms should:

1. **Target and increase housing benefits for renters, especially low- and moderate-renters and renters who are cost-burdened.** MID reforms should be accompanied by a renters’ credit or other measures to ensure that renters—especially those with incomes below the poverty line and renters who are cost-burdened—do not miss out on housing tax benefits merely because they cannot afford them or do not choose to become homeowners. In doing so, policymakers should ensure that these measures are designed to progressively target and support our lowest-income renters first, rather than beginning with supporting those at the top and scaling down from there.

2. **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.

3. **Help communities of color and women, especially women of color, build wealth through homeownership.** MID reforms should ensure that communities of color are not excluded, even unintentionally, from federal homeownership benefits solely because they do not itemize their deductions. Given the current research on the overwhelming support White households receive from the MID, and reasons for that skewed support, households of color and women are likely to benefit from the MID being converted from a deduction to an accessible and equitable credit rooted in homeownership, rather than the size of a mortgage.

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.

With economic mobility stagnant, millions of families without access to affordable housing and a growing racial wealth divide, it is inefficient and inequitable to continue significant federal investments that benefit only a share of the population that is disproportionately White and high-income. As a coalition, we believe that the high-level reform principles emphasized throughout this brief can lead the way to more equitable tax provisions that increase homeownership and affordable housing among low- and moderate-income families, particularly those of color, while also boosting economic mobility throughout the country.

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1. Prosperity Now’s calculations based on data from the Office of Management and Budget’s Tax Expenditures Analytical Perspectives.


8 Mariko Chang, Lifting as We Climb Women of Color, Wealth, and America's Future (Oakland, CA: Insight Center for Community Economic Development, 2010), 12.


14 Ibid, 7.


17 Cost-burdened is defined as renters, and homeowners, who spend 30% or more of their income on housing costs, including rent and utilities.