

The Mortgage Corner

TAX REFORM PROPOSALS UNFAIR TO HOUSING

Given a choice of simplifying federal tax laws or retaining current housing incentives, Americans resoundingly prefer the latter, according to a new nationwide survey of 1,001 adults. Two out of three survey participants (68 percent) favor retaining deductions for mortgage interest and state and local taxes over a plan to simplify the current tax code, according to the polling conducted by RT Strategies.

The President's Advisory Panel on Federal Tax Reform was tasked to "recommend options that would make the tax code simpler, fairer, and more conducive to economic growth." Among the recommendations was a drastic cutback in homeowners' mortgage interest deduction, currently available on mortgage amounts to \$1 million.

The panel recommended instead that only 15 percent of mortgage interest paid annually be deductible, up to the average regional price of housing (currently from about \$227,000 to \$412,000)! This is probably a non-starter with homeowners.

"The survey offers a cautionary note for those in the Administration and on Capitol Hill who may be tempted to endorse the recommendations of the President's Advisory Panel on Federal Tax Reform, which would wipe out popular tax incentives that promote homeownership and affordable housing," said Jerry Howard, executive vice president and CEO of the National Association of Home Builders (NAHB).

The White House and Treasury Department have yet to comment on the advisory panel's proposal, which was presented to the Administration on Nov. 1 as part of an overall attempt to overhaul the tax code.

Not only does the plan recommend a far more limited 15 percent tax credit, but also gone would be deductions for state and local taxes (including property taxes) and interest deductions for home equity loans and second homes. It would also eliminate the Low Income Housing Tax Credit, which accounts for the construction of more than 130,000 affordable rental housing units annually.

Commissioned by NAHB to determine the public reaction to revamping the current tax system, the polling firm found that an overwhelming majority of respondents support federal tax policies that foster the American dream of owning a home.

Specifically, 79 percent said it is reasonable for the federal government to provide tax incentives to promote homeownership, and 82 percent believe the government should use the tax code to encourage affordable housing.

Registered Democratic and Republican voters in all age groups view efforts to tamper with home interest deductibility as a major threat to their retirement security and their ability to pay for their children's college educations," said Lance Tarrance, who, along with Thomas Riehle, is a partner of RT Strategies. "For many older home owners, the equity built up in a home also provides an important hedge against unanticipated health care costs."

Moreover, 71 percent of survey respondents oppose the idea of changing the tax code to encourage people to invest more in stocks and bonds and less in the homes that they own. "And that is exactly what the advisory tax panel's plan would do," said Howard.