Return to: Opinions

The Mansion Subsidy

Peter Dreier

October 18, 2005

Peter Dreier is E.P. Clapp distinguished professor of politics and director of the Urban & Environmental Policy Program at Occidental College. He is coauthor of Place Matters: Metropolitics for the 21st Century*,* The Next Los Angeles: The Struggle for a Livable City*, and* Regions That Work: How Cities and Suburbs Can Grow Together*.*

For years, progressives have been denouncing "welfare for the rich"—government subsidies to big business, pork-barrel Pentagon contracts to weapons makers, huge tax breaks for wealthy individuals, and most recently, colossal contracts for post-Katrina reconstruction to politically connected companies like Halliburton. No one was shocked when Republicans proposed cutting funds for Medicaid and Section 8 housing vouchers, while preserving—even expanding—subsidies for affluent.

So it may surprise some observers that President George W. Bush's commission on tax reform is now debating whether to reform one of the largest subsidies for the rich—tax breaks for wealthy homeowners. The panel is scheduled to make its recommendations to the president by November 1.

In a nation that values homeownership, no one wants to make it harder for ordinary families to buy a home. It is unlikely that Congress would completely eliminate the two major tax breaks for homeowners—deductions for mortgage interest and property taxes. But they might consider scaling it back for the richest homeowners—what some housing activists call the "mansion subsidy."

Of the hundreds of tax breaks (what economists call "tax expenditures") for corporations and individuals in the nation's tax code, the largest are the subsidies for homeowners. The two major homeowner tax breaks cost the federal government almost $90 billion last year—$70.1 billion for the mortgage interest deduction and $19.3 billion for the property tax deduction—according to a report by the Congressional Joint Committee on Taxation. That would be OK if most of it helped middle- and working-class people. But it doesn't. Those with the highest incomes and the most expensive homes (including second homes) get the largest subsidy.

Most Americans think that federal housing assistance is a poor people's program. In fact, less than one-fourth of all low-income Americans (those who have Section 8 rental vouchers or who live in government-assisted developments) receive federal housing subsidies. In contrast, almost two-thirds of affluent Americans—many living in mansions—get housing aid from Washington. Whether they admit it or not, the wealthy live in subsidized housing.

More than half (53.7 percent) of last year's $89.5 billion homeowner subsidies went to the 11.8 percent of taxpayers with incomes over $100,000. More than one-fifth (20.6 percent) of these subsidies went to the wealthiest 2.3 percent of taxpayers with incomes over $200,000—some living in mansions.

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. As a result, 62 percent of households with incomes above $200,000 receive a homeowner tax break, averaging $7,219. (For the super-rich, the tax break is much bigger). In contrast, only 3.5 percent of households with incomes between $10,000 and $20,000 get any subsidy, averaging $317. If anything, these tax deductions help push up housing prices artificially, especially at the upper end, because homebuyers include the value of the tax subsidy in their purchase decision. This leads wealthy homeowners to buy bigger houses than they would without the tax breaks.

As a result, a wealthy corporate executive is more likely to receive a homeowner tax break—and to get a much bigger one—than a garment worker, a construction worker or a schoolteacher. The current system subsidizes the rich to buy huge homes without helping most working families buy

Latest

Give Us Your Well-Off February 08, 2007
War Backer's Gambling Debt February 08, 2007
James Inhofe Has Finally Lost It February 08, 2007
Worse Than The Disease February 07, 2007
Congress: Treat Iran Like Contras War February 07, 2007

ARCHIVES

even a small bungalow.

The real estate industry—homebuilders, realtors and mortgage bankers—has lobbied hard to preserve homeowner tax breaks, arguing that they are the linchpin of the American Dream. This is nonsense. Only one-third of the 52 million households with incomes between $30,000 and $75,000 receive any homeowner subsidy. Neither Australia nor Canada has a homeowner deduction, and their homeownership rate (about two-thirds of all households) is about the same as ours.

Indeed, a report by the Congressional Research Service released in August noted that "other homeownership subsidies, like down-payment assistance programs, are proven to be more effective at increasing homeownership among lower-income families and are less expensive than the mortgage interest deduction."

While the tax code provides $48 billion in homeowner subsidies for families with incomes above $100,000, the entire U.S. Department of Housing and Urban Development budget is only $32 billion. This provides housing assistance for less than one-quarter of the nation's poor. And while the number of poor people has increased, the Bush administration is now proposing to cut housing subsidies for low-income families. The gap between housing subsidies for the rich and the poor has been widening. Housing subsidies for the rich is virtually an entitlement, while for the poor it is a lottery.

Will the Bush administration propose reducing the mansion subsidies for the rich? Bush created the President's Advisory Panel on Tax Reform in January—co-chaired by former Senators John Breaux, D-La., and Connie Mack, R-Fla.—to suggest changes in the tax code. The goal was to make the code simpler and more fair. One member of the group—Charles Rossotti, the IRS commissioner from 1997 to 2002—said that "everything's on the table." But when he announced the task force, Bush specifically mentioned that it should take account of the "importance of homeownership" in its recommendations. Was this a signal to the powerful real estate industry that he won't challenge tax breaks for wealthy homeowners?

No one wants to eliminate existing homeowner subsidies for middle-class families. But the current system—which subsidizes the rich to purchase huge homes without helping most working families become homeowners—is in desperate need of reform.

For years, the Congressional Budget Office, in its annual report on budget options, has examined the impact of reducing tax breaks on expensive homes. In its latest report, released in February, it noted that lowering the ceiling on the amount of principal eligible for the mortgage-interest deduction from the current $1 million to $500,000 would affect only 700,000 homeowners (less than 1 percent of all homeowners) and raise $2.7 billion next year and more in subsequent years.

At a meeting of the president's task force last week, panel member James Poterba, an economics professor at the Massachusetts Institute of Technology, suggested an even bigger cut—capping mortgage-interest rate deductions at current Federal Housing Administration mortgage limits, which range from around $190,000 to about $310,000, depending on the locality. (The nation's median home price is now $268,000).

Others have suggested limiting the deduction to 15 percent or 25 percent of a taxpayer's mortgage interest. The richest homeowners can now deduct 35 percent.

In the unlikely event that the president's tax reform panel makes any of these recommendations, President Bush agrees, and Congress adopts it, how will these savings be used? No doubt Bush and his fellow Republicans would want to use the funds to reduce the deficit, now bloated due to tax breaks for the rich and the war in Iraq. But why not use the money to expand the number of families who receive Section 8 housing vouchers (a program Bush has slashed) or help more working families become homeowners, a goal Bush constantly says he supports, by providing working families with downpayment assistance or by adding a housing component to the popular Earned Income Tax Credit, which would be tied to local housing prices?

The current way we distribute housing subsidy funds is wasteful and unfair. As a nation, we have the resources to assist the millions of poor and working-class families who cannot afford market-rate rents or home prices. Let's stop subsidizing the rich to live in mansions and help working families achieve the American Dream.