TAX REFORM

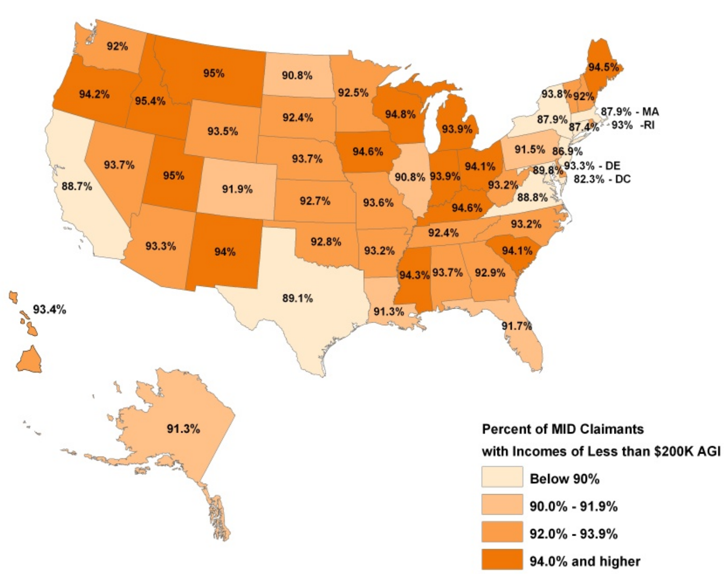
Congress is discussing possible changes to the tax code. In doing so, it is essential that Congress take the right approach to foster economic growth. It is critical for future economic prosperity that Congress not harm job creation and recovery in the construction industry.

Mortgage Interest Deduction

The mortgage interest deduction (MID) has been part of the tax code since its inception in 1913 and is the cornerstone of American housing policy. Homeowners may deduct interest from up to $1 million of acquisition mortgage debt and up to $100,000 of home equity loan debt. These amounts were set in 1987 and have not been adjusted for inflation.

There are many misperceptions regarding this deduction and who benefits. In reality, the deduction is a middle-class tax break and is particularly beneficial to younger households and larger families. Two-thirds of the benefits of the mortgage interest deduction are claimed by those earning less than $200,000. Yet these same taxpayers pay only 40 percent of all income taxes, meaning these deductions make the tax code more progressive and fair. As a share of household income, the deduction benefits those aged 18 to 35 the most, as well as larger families. And, the vast majority of homeowners benefit from the mortgage interest deduction; in any given year, 70% of homeowners with a mortgage will claim it.

Percentage of MID Claimants with Incomes of Less than $200K AGI



Second Homes

Perhaps the least understood component of the mortgage interest deduction is the allowance to deduct interest on a second home. In fact, many homeowners have owned a second home without realizing it. For example, when a homeowner sells one home and purchases another, effectively owning two separate principal residences in a given tax year. Further, the second home MID rules allow up to 24 months of construction loan interest on a newly-constructed home to be claimed while the family resides in their existing principal residence.

Second homes may conjure up images of expensive beach homes (although such homes are more likely to be rented out, in which case the owner does not claim the mortgage interest deduction, or owned free-and-clear), but second homeownership is much more diverse. Every state, except for Connecticut, has at least one county with 10 percent or more of its housing stock as second homes.

Low Income Housing Tax Credit

The tax code also contains numerous provisions to support rental housing. One of the most unique—and effective—provisions is the Low Income Housing Tax Credit (LIHTC). Created as part of the *Tax Reform Act of 1986*, the LIHTC promotes public-private partnerships to produce affordable rental housing. The LIHTC allows private equity to be raised at a lower cost, which makes it possible to operate these projects successfully with below-market rents. In general, the LIHTC serves households earning 60% or less of the area median income. Because compliance is monitored by the state housing finance agencies as well as the investors, LIHTC projects have a foreclosure rate that is one-third of other multifamily properties.

The LIHTC is currently producing approximately 75,000 new apartment homes annually, and since its inception, the LIHTC has produced more than 2 million affordable rental units. Despite its success, this is not sufficient to replace the number of affordable apartments lost each year.

Even in this tough economic climate, the LIHTC creates 95,000 new full time jobs per year across all U.S. industries—generating $2 billion in federal tax revenue. No other housing program has been as successful as the LIHTC in producing safe, quality, affordable rental housing.

Take Action

- Congress - Oppose any changes to the tax code that would increase taxes on homeowners, renters, or home builders.
- Congress - Support a tax code that enables homeownership opportunities for the middle class and ensures an adequate supply of affordable rental housing.
- Congress - Support housing's role in the economy. Eliminating or scaling back these vital housing incentives will also shrink the local tax base of many communities, causing already cash-strapped state and local governments to further cut jobs and essential services.

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