Hearing on Tax Reform and Residential Real Estate

HEARING

BEFORE THE

COMMITTEE ON WAYS AND MEANS

U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRTEENTH CONGRESS

FIRST SESSION

April 25, 2013

SERIAL 113-FC06

Printed for the use of the Committee on Ways and Means

COMMITTEE ON WAYS AND MEANS

DAVE CAMP, Michigan,*Chairman*

SAM JOHNSON, Texas	SANDER M. LEVIN, Michigan
KEVIN BRADY, Texas	CHARLES B. RANGEL, New York
PAUL RYAN, Wisconsin	JIM MCDERMOTT, Washington
DEVIN NUNES, California	JOHN LEWIS, Georgia
PATRICK J. TIBERI, Ohio	RICHARD E. NEAL, Massachusetts
DAVID G. REICHERT, Washington	XAVIER BECERRA, California
CHARLES W. BOUSTANY, JR., Louisiana	LLOYD DOGGETT, Texas
PETER J. ROSKAM, Illinois	MIKE THOMPSON, California
JIM GERLACH, Pennsylvania	JOHN B. LARSON, Connecticut
TOM PRICE, Georgia	EARL BLUMENAUER, Oregon
VERN BUCHANAN, Florida	RON KIND, Wisconsin
ADRIAN SMITH, Nebraska	BILL PASCRELL, JR., New Jersey
AARON SCHOCK, Illinois	JOSEPH CROWLEY, New York
LYNN JENKINS, Kansas	ALLYSON SCHWARTZ, Pennsylvania
ERIK PAULSEN, Minnesota	DANNY DAVIS, Illinois
KENNY MARCHANT, Texas	LINDA SÁNCHEZ, California
DIANE BLACK, Tennessee	
TOM REED, New York	
TODD YOUNG, Indiana	
MIKE KELLY, Pennsylvania	
TIM GRIFFIN, Arkansas	
JIM RENACCI, Ohio	

JENNIFER M. SAFAVIAN,*Staff Director and General Counsel*

JANICE MAYS,*Minority Chief Counsel*

C O N T E N T S

[Advisory of April 25, 2013 announcing the hearing]

WITNESSES

Mr. Mark Calabria
Director of Financial Regulation Studies, Cato Institute, Washington, DC

Witness Statement [PDF]

Mr. Robert Dietz
Assistant Vice President for Tax and Policy Issues, National Association of Home Builders, Washington, DC

Witness Statement [PDF]

Mr. Mark Fleming
Chief Economist, CoreLogic, McLean, VA

Witness Statement [PDF]

Ms. Jane Gravelle
Senior Specialist in Economic Policy, Congressional Research Service, Washington, DC

Witness Statement [PDF]

Mr. Thomas Moran
Chairman, Moran & Company, Chicago, IL, on behalf of the National Multi Housing Council and the National Apartment Association

Witness Statement [PDF]

Mr. Robert Moss
Senior Vice President, Boston Capital, Boston, MA, on behalf of the Housing Advisory Group

Witness Statement [PDF]

Mr. Phillip Swagel
Professor of International Economic Policy, University of Maryland School of Public Policy, College Park, MD

Witness Statement [PDF]

Mr. Gary Thomas
President, National Association of Realtors, Washington, DC

Witness Statement [PDF]

Mr. Eric Toder
Co-Director, Urban-Brookings Tax Policy Center, Washington, DC

Witness Statement [PDF]

Hearing on Tax Reform and Residential Real Estate

U.S. House of Representatives,
Committee on Ways and Means,
Washington, D.C.

The committee met, pursuant to call, at 9:38 a.m., in Room 1100, Longworth House Office Building, Hon. Dave Camp [chairman of the committee] presiding. Advisory

---

Chairman Camp. Good morning. The committee will come to order.

Good morning and thank you for joining us today as we continue our dialogue with individuals, families, and job creators of all sizes about the critical steps that Congress can take through tax reform to get our economy back on solid footing.

My position is well known: It is important for Congress to fix our broken Tax Code. As anyone in this room who just completed their taxes in the last few weeks will tell you, today's Tax Code is far too complex, it takes far too much time and too much money to comply with. And while I often joke that the code is more than 10 times the size of the Bible with none of the good news, what I should also add is that not everything in the code is bad. However, with more than 4,000 changes made to the Tax Code in the last decade alone, more than one per day, it is tough to imagine that all those changes have made the code more user friendly. It is just the opposite. And that is why we owe it to the American people to go line by line through the code and see how we can make it work better for hard-working taxpayers, not just those who can afford a good accountant.

The two primary keys to tax reform are to make the Tax Code simpler, fairer, and more transparent for families and employers, and to strengthen the economy so that we can create more jobs and increase wages for American families.

So today, as part of our top-to-bottom review of the code, we will examine how tax policy related to residential real estate lines up with those goals, and we will do so with two questions in mind. Does current tax policy help American families and does it make our economy stronger?

Home ownership is an integral part of the American dream, and the Tax Code has long provided a variety of incentives to make it easier for families to buy and own a home. We also know that the real estate industry plays a large role in our economy. So this is an area that needs careful, thoughtful review.

A number of Federal tax preferences provide for benefits for residential real estate. While some are very familiar, others are lesser known. Although these provisions all pertain to housing, each is governed by different rules and criteria. If we are looking to understand how complex, confusing and costly our code can be, consider just a few of the following examples involving residential real estate.

Perhaps the most well known tax provision affecting real estate is the mortgage interest deduction, which has specific rules and limitations. For instance, only taxpayers who itemize their deductions may deduct mortgage interest. Other interactions within the Tax Code can also limit the use of this provision.

By way of example, the deduction for interest on home equity indebtedness is disallowed for purposes of the alternative minimum tax. Furthermore, Federal tax benefits for real estate treat homeowners differently than renters. A taxpayer who pays $1,000 per month to rent an apartment may not deduct that amount from income, but a taxpayer who pays mortgage interest of $1,000 may take a deduction if they itemize.

Though these examples are from real estate provisions, this complexity plagues the entire code and underscores one simple fact: The Tax Code is a mess. You shouldn't need an army of lawyers and accountants to understand our Tax Code and it shouldn't take American taxpayers over 6 billion hours and $168 billion every year to comply with the code. We should get rid of the loopholes in the code and make it more efficient and effective for hard-working taxpayers.

However, as we get started today, let me emphasize that not every credit or deduction is a loophole. The largest investment most people have is their home. And as I noted earlier, policies like the home mortgage interest deduction have played a big role in home ownership.

I also believe that tax reform, which can help us create a stronger economy with higher paychecks, is one of the best ways we can help families struggling to save for college, save for retirement, or of particular interest to some on our second panel today, save for a downpayment on that first home.

So I look forward to the testimony of both panels today and I hope that the witnesses will help this committee better understand how we can balance the goal of that simpler and fairer code with the needs facing consumers in the residential marketplace. Both are important to American families, and your expertise and insight will be critical to all of us in meeting their needs.

Thank you.

Chairman Camp. I will now recognize the ranking member for his opening statement.

Mr. Levin. Thank you, Mr. Chairman. Welcome to our panel.

The topic before us is an important one. The Federal Government, through the Tax Code, has been involved in promoting home ownership for over a century. Let's be clear: There are many egregious loopholes in the Tax Code, but the main provisions incentivizing home ownership are policies, not loopholes.

The failure to differentiate which is which between policies and real loopholes has led to some facile proposals. Among them are proposals that begin without the mortgage interest or any other deductions, or proposals that simply pick a much lower tax rate than present law without any suggestions as to how to fill the trillions in lost revenue that would result.

Such proposals have failed to take into account some basic facts, including the growing income gap, and they have failed to consider adequately whether policies are significant for a strong middle class or mainly for very wealthy family families. According to the Joint Committee on Taxation, two-thirds, 70 percent of the benefit of the mortgage interest deduction goes to households earning less than $200,000 a year. Less than a third of the benefit, 30 percent, goes to those who make more than that.

By comparison, the reduced rate for capital gains almost exclusively benefits the very wealthy. More than 70 percent of the benefit of that lower rate flows to people making more than $1 million a year, just 12 percent to those making less than $200,000.

These tax policies deserve, indeed, serious consideration beyond the easy rhetoric about simply broadening the base and reducing rates. So I hope that today this hearing will be a step in the direction of this serious consideration.

Thank you, Mr. Chairman.

Chairman Camp. Well, thank you, Mr. Levin.

Chairman Camp. Now it is my pleasure to welcome our first panel of experts, all of whom bring a wealth of experience from a variety of perspectives. Their experience and insights will be very helpful as the committee considers the impact of Federal tax reform on residential real estate.

First, I would like to welcome Mark Fleming, the chief economist at CaseLogic. Mr. Fleming has over 15 years of experience in the mortgage and property analysis business.

Second, we will hear from Eric Toder, co-director of the Urban-Brookings Tax Policy Center in Washington, D.C. Mr. Toder is a veteran of the Treasury Department, CBO, and the IRS.

And third, we will hear from Jane Gravelle, senior specialist in economic policy and a long-time veteran of the Congressional Research Service.

And fourth, we will hear from Mark Calabria, director of financial regulation studies at the Cato Institute, also in Washington, D.C. Mr. Calabria has had a broad career, spending time at HUD, the National Association of Home Builders, the National Association of Realtors, and the Senate Banking Committee.

And finally, we will hear from Phillip Swagel, professor of international economic policy at the University of Maryland in College Park. Mr. Swagel is a former assistant secretary for economic policy at the Treasury Department.

And thank you all for being with us today. The committee has received each of your written statements and they will be made part of the formal hearing record. Each of you will be recognized for your oral remarks for 5 minutes.

And so, Mr. Fleming, we will begin with you. You have 5 minutes. Welcome.

Mr. Fleming. Thank you. Chairman Camp, Ranking Member Levin, and distinguished member of the committee on Ways and Means, CoreLogic appreciates the opportunity to submit this testimony regarding tax reform and residential real estate.

My name is Mark Fleming, and I am chief economist for CoreLogic, a leading global provider of consumer, financial, and property information, analytics and services to business and government. Our company combines public contributory and proprietary data to develop predictive decision analytics and provide business services that bring dynamic insights to our customers in the residential mortgage origination, securitization, and servicing markets, as well as other private sector institutions and government.

One of the brightest spots within the uneven economic recovery at the moment is the housing sector. Residential investment contributed about half a percentage point to GDP growth in Q4 of 2012, very significant for a single industrial sector. In March of 2013, residential investment continued to grow. Housing starts increased to an annualized rate of a million, which is 47 percent above the level from the same month a year earlier and the largest increase in more than 20 years. Home prices consequently have rose 10.2 percent year over year, the largest increase in nearly 7 years, and our pending house price index indicates that that price growth in March will continue the trend.

One of the features of the American Recovery and Reinvestment Act of 2009 was a first-time home buyer tax credit aimed at stimulating the real estate sales market. In the first half of 2009, before the impact of the tax credit could be felt, home sales were declining at a rate of 15 percent from the prior year. However, by September of 2009, sales were at the same level as the prior year, and by November 2009, the month of expiration, sales were up 34 percent from the prior year, nearly a 50 percent point improvement in under 1 year.

When the tax credit was extended to April of 2010, sales increased at an average rate of 12 percent analyzed until expiration of the credit. However, as soon as the tax credit expired, the volume of home sales dropped, averaging a rate of 18 percent annualized for the remainder of the year. Furthermore, prior to the expiration of the tax credit, expensive home sales increased more rapidly than low and moderately priced home sales. The tax credit stimulated current demand at the expense of future demand, but did not have a permanent impact on the market.

While the first-time home buyer tax credit resulted in home buyers buying sooner than otherwise, the Tax Relief Act of 1997 causes a subset of sellers to defer sales to a later date. The Tax Relief Act exempted from taxation the profits on the sale of a residence of up to $500,000 for married couples filing jointly and $250,000 for singles if the property has been a residence in two of the last 5 years.

Since the act's tax exclusion can only be applied if the owner has been living in the property for at least 2 years, it clearly applies to existing homes and not new homes. Therefore, the law only impacts existing home sales, but not new sales. For the 5 years prior to 1997, the existing home sales share of total sales, new and existing combined, averaged 84 percent. However, as discussion of the act became public and the share declined to below 83 percent as sellers waited for the law to be enacted, so as to take advantage of the tax exclusion, after the law was enacted, the share rose above the previous average for several months before returning to its long-run average. In the case of the first-time home buyer tax credit and the capital gains tax exclusion, market participants changed their behavior in the short term.

The existing literature on the societal value of home ownership generally shows that, relative to renting, it is associated with better-cared-for homes, increased participation in the community, and better students with lower likelihood of needing welfare. Assuming that increasing home ownership to capture these social benefits is a goal of tax policy, there is a significant amount of economic literature that studies existing and proposed policies and their implications for the decision to own versus rent, the amount of house consumed, and the implications of policy changes on house prices.

CoreLogic is thankful to the committee for the opportunity to provide testimony on the meaningful impact that tax policy has on the real estate market. We are encouraged by the committee's recognition of how data and analytics can help inform a better understanding of the relationship between tax policies and the real estate market, especially as the housing market once again contributes to our fragile economic recovery. Thank you.

Chairman Camp. Well, thank you, Mr. Fleming.

Chairman Camp. Mr. Toder, you are recognized for 5 minutes.

Mr. Toder. Thank you very much.

Chairman Camp, Ranking Member Levin, and members of the committee, thank you for inviting me to testify today on reforming the mortgage interest deduction. My statement represents my views alone and should not be attributed to the Tax Policy Center or to the Urban Institute, its trustees, or its funders.

The mortgage interest deduction is one of the largest individual tax preferences in the Internal Revenue Code. The joint committee estimates it will cost $380 billion between 2013 and 2017. The Tax Policy Center estimates that about 40 million taxpayers will benefit from the deduction in 2015.

The current mortgage interest deduction does little to promote home ownership because it provides no subsidy to taxpayers who do not itemize deductions and only a very modest subsidy to taxpayers in the 15 percent bracket. The subsidy value is largest for families in high tax brackets, who are the ones most likely to own a home without a subsidy. Other countries without a mortgage interest deduction have home ownership rates as high or higher than the United States. Instead, the deduction mostly encourages homeowners to buy larger and more expensive homes with borrowed money.

Either a uniform percentage tax credit for mortgage interest or an investment credit for first-time home purchase would be a more effective home ownership subsidy. Replacing the deduction with an interest credit has been endorsed by the Federal tax reform panel appointed in 2005 by President Bush, the National Commission on Fiscal Responsibility and Reform, and the Debt Reduction Task Force of the Bipartisan Policy Center. Other proposed reforms include reducing the size of a mortgage qualifying for a subsidy, limiting the subsidy to a principal residence, and eliminating the subsidy for home equity.

The tables in my testimony display the effects on tax burdens and average tax rates of four potential reforms: eliminating the deduction, limiting it to interest on the first $500,000 of home acquisition debt, replacing it with a 15 percent refundable credit on the first $25,000 of eligible interest, and replacing it with a 20 percent nonrefundable credit for interest on the first $500,000 of home acquisition debt. All of these options would raise taxes the most on upper-middle-income taxpayers, and replacing the deduction with a credit would reduce tax burdens on average in all groups in the bottom 80 percent of the income distribution.

The revenue gains, I should note, from all these options would be lower if introduced as part of a reform that lowered marginal income tax rates. With lower rates eliminating deductions raises less money, but new credits would cost just as much.

Proposals to pare back the mortgage interest deduction could adversely affect housing prices. Reform should be introduced slowly to avoid risks to the housing market, but transition rules would reduce revenue gains from the options and delay their benefits.

In conclusion, the mortgage interest deduction is difficult to justify on policy grounds. It does little to encourage home ownership, but instead mostly encourages upper-middle-income households to buy larger and more expensive homes. Converting the deduction to a credit, placing additional limits on the amount of debt eligible for the subsidy, and denying the preference to home equity loans and second homes would result in a larger home ownership subsidy to those who might act on it at a lower fiscal cost.

But any reform must take account of short-run adverse effects on housing markets. Designing appropriate transition rules that prevent market disruption, while retaining the benefits of removing or redirecting the preference, will be challenging. Thank you very much.

Chairman Camp. Thank you very much, Mr. Toder.

Chairman Camp. Ms. Gravelle, you are recognized for 5 minutes.

Ms. Gravelle. Thank you.

Since the interest in housing tax expenditures is part of a general investigation of broadening the income tax base to either permit a lower rate or to prevent rates from rising, I would like to begin first with some general comments on tax reform, based on a CRS report that we did last summer.

First, it is very difficult to identify base-broadening provisions in general that might allow significant rate reductions. About 30 percent of tax expenditures relate to savings incentives, such as retirement savings, exempting capital gains at death, and lower rates on capital gains and dividends, which some who are

concerned about saving would probably like to retain. Others are unlikely candidates for technical reasons or because they are crucial to low-income individuals or because of particular merits or popularity and broad use. Our analysis suggested very limited possibilities for rate reduction.

It is even more difficult to identify provisions that would allow significant reductions of the top rate while maintaining the current distribution of tax benefits. About 70 percent of the revisions we identified as being significant at the top, again, were related to savings.

Finally, if the goal of lowering tax rates is to encourage supply-side responses, base broadening increases effective marginal tax rates in the same way as statutory rate increases, because if part of an additional dollar of income is devoted to a tax-deductible use, eliminating that deduction will raise the share of taxes paid at the margin. For example, eliminating all itemized deductions, we estimated, would allow a statutory rate reduction of the top between 4 and 5 percentage points, but the loss of deductions themselves would increase the effective marginal tax rate by about 4.5 percentage points, essentially leaving effective marginal rates unchanged.

How do the primary provisions affecting housing, mortgage interest deductions, property tax deductions, and exclusions of capital gain fit into this framework? First, although their broad use and popularity may be political barriers to major revisions, many economists have criticized these provisions as distorting the allocation of resources, diverting capital from other uses, encouraging the overconsumption of housing, and treating renters differently from owner occupants. There may, however, be merits to owner-occupied housing, such as the neighborhood benefits that have already been mentioned.

Perhaps more importantly, a home is an important asset in retirement. Since investment in a home is a form of automatic savings, accumulating equity as the mortgage is paid, that saving may be in part an increase rather than a substitute for other savings. If a goal of tax reform is to encourage saving, these subsidies may be justified.

Finally, in terms of fairness, mortgage interest deductions increase fairness between homeowners who rely largely on mortgages and those who finance out of assets.

There are some additional justifications for retaining the capital gains exclusion. Capital gains taxes on home sales discourage labor mobility by increasing the cost of relocating. They cause real lock-in effects, such as discouraging older individuals from scaling down their homes as their families become smaller or moving to rental housing, since taxpayers can avoid tax on the gain by holding their home until death. They impose taxes on certainly elderly individuals, who are forced to sell, for example, for health reasons, and not on others. And the lock-in effect, about which we know very little, may significantly reduce the potential revenue gain.

Transition issues also arise for individuals who have recently acquired large mortgages, and there are also immediate concerns on the housing demand, because the economy and the housing market are still very fragile. And transition rules, as long as you know they are happening, might not do much on that demand, for preventing a reduction in that demand.

Now, looking at distribution, these housing provisions are not that important relative to income for taxpayers facing the top marginal tax rates, and so they would do very little to permit those rate reductions. Also, high-income taxpayers could avoid the effects by paying off their mortgages.

The same sort of marginal effects on effective tax rates and supply-side responses with the loss of deductions raising effective marginal tax rates and offsetting statutory rate reductions would also occur with these provisions, but they would take a little longer and, most importantly, they would be focused on the sort of middle-class or upper-middle-class taxpayers generally with incomes between $100,000 and $250,000 dollars. Thank you.

Chairman Camp. All right. Thank you very much, Ms. Gravelle.

Chairman Camp. Mr. Calabria, you are recognized for 5 minutes.

Mr. Calabria. Chairman Camp, Ranking Member Levin, others distinguished members of the committee, I thank you for the invitation to appear at today's hearing.

Let me first say that I believe housing is a critical component of our economy. More importantly, I think we need to keep in mind that housing is one of the basic necessities of life. Without stable, decent, and affordable housing, many other goals in life become quite difficult, if not impossible to achieve.

With that in mind, it is my opinion that our current Tax Code actually does little to help achieve these goals. I believe a Tax Code that would improve economic growth and housing affordability would ultimately be a code with low, simple, flat rates, with few, if any, deductions. Accordingly, I would urge the committee, as an ultimate objective, to entirely eliminate the mortgage interest deduction and the deduction for local property taxes. I would also encourage the committee do so in a budget-neutral manner, lowering overall rates.

As households have made significant investments and decisions based upon the current Tax Code, such a change should, of course, be phased in over a reasonable number of years. I would suggest no more than 7. I recognize that such a change immediately raises questions as to any adverse impact. I would be the first to agree that no policy is without both costs and benefits. There are no freebies. Before we can properly assess those costs and benefits, however, we must start from a position of understanding.

As it relates to the mortgage interest deduction, we can think about, or at least I think about homeowners as broken down into roughly three near-equal-size groups. The first third is homeowners who have no mortgage at all. That is about a third of owners own their homes free and clear, deriving no benefit from the mortgage interest deduction. I will note as an aside, prior to 1960, the majority of homeowners actually owned their homes free and clear without any mortgage at all. The second third have mortgages that are simply too small for these households to benefit from itemizing as opposed to taking the standard deduction. The last third are those who would potentially benefit from the mortgage interest deduction. These households also tend to be the most highly leveraged and the highest income households.

The good news, in my opinion, from a transition is that those who currently benefit from the mortgage interest deduction are also those most likely to be homeowners with or without the mortgage interest deduction. I think the academic evidence is very clear that the mortgage interest deduction does almost nothing to increase home ownership rates. As I have included in my written testimony, a chart showing that changes over time in the value of the deduction have not been correlated with changes in the home ownership rate.

We should also recognize that some portion of the subsidy behind the mortgage interest deduction is captured by lenders in the form of higher rates. This subsidy also differs dramatically across housing markets. In tighter markets, such as in San Francisco, the buyer gets almost no value from the subsidy, as it ends up being almost entirely captured by the seller. In looser markets there is very little price impact, as the buyer retains the majority of that subsidy.

I would also argue that any price declines that result from the removal of the mortgage interest deduction would largely occur in markets where we would want housing prices to fall, in my opinion. Again, you look at San Francisco. The median house price is almost eight times median income. It is a simply unaffordable place to live by any stretch of the imagination.

The committee should also keep in mind that the value of the mortgage interest deduction increases with the level of interest rates outstanding in the economy. Quite simply, the higher our interest rates, the higher the value of the mortgage interest deduction. This also implies that the higher mortgage interest rates are

the greater the impact of the mortgage interest deduction on house prices, to the extent that they are capitalized into house prices.

Obviously the converse of that holds. The lower the rates are, the lower the value of the mortgage interest deduction and thus the lower the house price impact. So if we wish to minimize the impact of reducing or eliminating the mortgage interest deduction, then all else equal, we should do so at a time when interest rates are at their lowest. I would submit to you that it is pretty hard for me to believe that rates are getting lower than they are today. So if there is a time to eliminate or change the mortgage interest deduction, the optimal time would be now.

We should not, of course, forget that rental properties enjoy many of the tax benefits that owner-occupied properties also get. Mortgage interest property taxes can all be expensed. The true advantage that the Tax Code offers to homeowners over renters is that rental income is taxed, whereas imputed rent that owners pay to themselves is not taxed. Economists have estimated that the value of this non-imputed taxation of owners' imputed rent is about twice the aggregate size of the mortgage interest deduction.

While a handful of countries do tax imputed rent, I believe a fairer and simpler system for achieving tenure neutrality in the code would be to end the taxation of rental income. My back-of-the-envelope calculation is that such would score about $6 billion annually.

Let me wrap up by emphasizing that extremely high levels of leverage on the part of households and financial institutions was a direct contributor to the recent financial crisis. As the mortgage interest deduction is less a subsidy for home ownership than a subsidy for home debt, its existence, while not a major driver of the crisis, was a contributor. Reducing household leverage would improve the stability of our financial system and our economy.

Thank you, and I look forward to your questions.

Chairman Camp. Thank you very much, Mr. Calabria.

Chairman Camp. Mr. Swagel, you are recognized for 5 minutes.

Mr. Swagel. Thank you. Thank you, Chairman Camp, Ranking Member Levin, and the members of the committee for the opportunity to testify.

In the immediate aftermath of the financial crisis, I think it was understandable for housing market participants and for the housing industry to urge that policymakers, quote, "do no harm to housing" or "make no changes." I think that time has passed. Housing is in recovery and cannot be left on the sidelines of tax reform. Instead, housing must be part of a thoughtful tax reform that boosts growth, simplifies the tax system, and maintains progressivity. Even more, the stronger sustained rate of U.S. economic growth from reform will be an important long-term positive for housing.

So I would urge that changes to the tax treatment of housing be made as part of an overall pro-growth tax reform and not as an ad hoc revenue grab to support higher spending, as unfortunately is the case in the administration's budget proposal.

Other developments will affect housing at the same time as reform, including the normalization of interest rates by the Fed, perhaps progress on housing finance reform, and other things.

On the other hand, affordability remains very high with low interest rates, and the housing sector is at the beginning of a time of recovery. So even if tax reform whittles away some of the benefits that lead to a diversion of resources from other forms of investment, the housing sector and the housing recovery will continue going forward.

So tax reform should address the incentives in the code that lead Americans to purchase larger homes with more debt than otherwise and that distort the allocation of resources. This distortion reduces U.S. productivity growth and thereby reduces the growth of wages and income.

As others have said, the benefits of the tax subsidies for housing accrue disproportionately to high-income families. Three out of four dollars of the tax benefits for housing go to families with incomes above the definition of the middle class put forward by President Obama's chief economist.

Housing plays an important role for American families, businesses, and the overall economy, and the code reflects this important role. As discussed in my written testimony, reforms to the mortgage interest deduction can preserve the support for housing in the code while boosting U.S. growth and improving measures of distribution.

It is not very common in economics that policy changes can improve both efficiency and equity, and that is possible here, reflecting the considerable bias in the Tax Code. And as others have said, an appropriate transition period can be put in place to smooth the impact of tax reform on housing, but the key is really to focus the tax benefits more carefully.

One measure of the distortion in the economy implied by the tax subsidies for housing can be seen in a calculation of the effective tax rate for investment in different types of activities. So in 2007 the Treasury Department calculated that the tax rate on an incremental dollar of investment in housing was 3.5 percent, where the tax rate on business investment, overall business investment, was 25.5 percent. And since 2007, taxes on business investment have gone up, with higher taxes on dividends, capital gains, and higher taxes on the flow-through income of businesses.

So it is vital to support housing, but it is also important to understand the disparity that the Tax Code presents between investment in housing and investment in other forms of activity, including business investment.

The tax system also provides support for affordable housing. I would like to mention that very briefly in concluding. A key question that I think is worth further examination is whether the benefits that the Tax Code has for affordable housing are well targeted. In other words, do the dollars actually reach the people who most need help with affordable housing or do the benefits instead go to other parties, such as real estate developers?

In general, a sound principle is for tax subsidies to target people rather than places, and this suggests a focus on demand-side tax subsidies for affordable housing, such as the Housing Choice Voucher, the so-called Section 8 program.

In contrast, the Low Income Housing Tax Credit has the potential to boost construction of affordable housing units. I think it would be useful for Congress and for the committee to mandate careful empirical analysis -- data, not anecdotes -- to assess whether this is the case. And the idea is for tax policy to ensure that taxpayer resources be used in the most effective way to support the vital goal of affordable housing. Thank you very much.

Chairman Camp. Well, thank you very much, Mr. Swagel.

Chairman Camp. Thank you all for your testimony. We are now going to move into the question-and-answer phase of the hearing, and each member who seeks recognition will be given 5 minutes in which to ask questions and receive answers.

Let me start, and I will start with you, Mr. Swagel. I just want to go over a point you made in your testimony I mean, clearly over the last 2-1/2 years this committee has been engaged very heavily in tax

reform. We have had over 20 hearings. We are determined to fix a Tax Code that many of us view as broken and really presents too much of a burden on taxpayers, it is too costly.

You mentioned a pro-growth tax reform model that could help bring about general economic growth and job creation. And if that is the case, would that help the housing sector?

Mr. Swagel. Oh, I think it would. Even if some of the benefits, such as the mortgage interest deduction, are reduced, the overall effect in boosting economic growth from reducing the tax on saving and the tax on investment in the U.S. Tax Code would boost the overall economy, and this would flow back into housing. It is hard to say that, you know, that tax reform will pay for itself in the form of stronger growth, but there will definitely be a strong offset.

Chairman Camp. Mr. Calabria, do you have any comment on that?

Mr. Calabria. I would agree. I think over time ultimately in the long run, what should and what does drive house prices are incomes. And certainly I think one of the mistakes we made in the financial crisis was to try to get people to stretch beyond and beyond their means. And so to me, a pro-growth Tax Code is going to be one that increases labor productivity, increases wages, increases incomes, and makes housing more affordable by making people wealthier, not making them more indebted.

Chairman Camp. There has been some testimony, Mr. Toder, particularly yours, on the importance of transition rules with regard to any tax changes, or, you know, for the tax benefit regarding housing. Can you kind of elaborate a little bit more on that in terms of why transition rules are important? And do you have any recommendations on specifics of how transition rules should work?

Mr. Toder. Okay. I wish I had thought about that a little bit more before throwing that out. But part of the reason I did make that comment, there are studies out there which show fairly substantial effects on house prices of, for example, removing the mortgage interest deduction.

They might not be as serious as those studies show. Interest rates are very low today. There are other people moving into the market who are not affected by the mortgage interest deduction. So I think they may be exaggerated, but nonetheless, we have had a very fragile housing market, as you know, and big losses. That has affected the construction industry, it has affected employment. And I think at this time, with the recovery a little fragile, you have got to be a little bit careful about taking away those props.

So whether this happens through kind of gradually phasing out elimination of the deduction or grandfathering it for existing owners, there are a lot of different ways of doing this.

Chairman Camp. Sure.

Any thoughts on transition rules, Mr. Calabria or Mr. Swagel?

Mr. Swagel. Sure. So transition rules are important, and one could imagine phasing in the reduction of the mortgage interest deduction. I wanted to mention, it is possible to go too far also. So imagine a transition rule that entirely excludes existing homes and says, you know, only new homes won't have the mortgage interest reduction. Well, that will reduce the supply of new homes and could actually give a benefit to old homes. So anyone with an existing home could be better off. So the transition rules are really important. It is just important to get that balance and so that everyone is going to have to contribute something in tax reform.

Chairman Camp. Sure. Mr. Calabria.

Mr. Calabria. Certainly there is a tradeoff, in my mind, between, you know, a reasonable phase-in, which I think is important, as I mentioned in my testimony, people have made investments based on this, versus simplicity, you know. So I would, you know, maybe to parse out something that Phil said, I would have the phase-in targeted to the person and the mortgage rather than the house. You know, we know, for instance, historically the median life of a mortgage is about 7 years. So I think in this interest rate environment, it will probably be closer to 8 or 9, but having this, that the mortgage you have today, or if you have it already on the books, remains deductible, you could have some sort of glide path where that diminishes over time, but somewhat new mortgages coming on in the future.

I will emphasize again the value of the deduction is related to the value of interest rates and the economy. And, again, they are not going to get any lower, they are only going to get higher. So my point would be this will only get more difficult in the future rather than doing it earlier rather than later.

Chairman Camp. All right.

And Mr. Fleming, any thoughts on this idea of pro-growth reform and sort of the idea of general economic growth and job creation, what that might mean in the housing sector?

Mr. Fleming. Yes. I agree with what has been said. You know, a better growing economy, particularly with broad-based income growth, is helpful to the housing market. That is how people buy homes. That is how house prices rise in the longer run.

And this is a very sticky wicket in the sense of with all the deductions and the transition rules, in that, for example, a lot of the studies we look at look at the user cost of comparing renting to owning. But a lot of people don't just consider user costs. It is not a purely financial decision to buy a home, right? I mean, much as we economists like to believe that we act individually, financially, rationally, I don't know that that is often the case, and that we have a lot of other driving forces. And that is really what is behind.

If you incorporate user cost, which is where the tax policy is interacting and adjusting user costs to the benefit of home owning over renting, it is influential in the decision of tenure choice. You know, the studies have shown empirically it is influential, but it is not the only influential thing. Other things are just as important are your overall income level. That is where the economy would flow in. What your marital status is, what your family size is. There is many other factors, as we know.

It is also shows, and some of the best economic research I have seen is sort of these models that sort of take those decisions into two parts, which is the choice to buy or rent, and then once you have made the choice to buy, then it is a question of how much. Now, it also shows that it influences the "how much" component.

So the question, I think, always gets back to, what is our public policy goal? Is it simply to spur home ownership? Is it home ownership in combination with increased investment in housing, which is sort of where it stands today? I mean, we sort of need to start with what the public policy perspective and goal is in the very first place before we attempt to redesign and figure out how to do the transition.

Chairman Camp. Okay. Thank you.

And I just want to note that in terms of tax expenditures, 40 percent of the base broadening in the 1986 act did not involve tax expenditures. So tax expenditures are not the only way of base broadening in order to lower rates as we go forward.

So with that, I would recognize Mr. Levin.

Mr. Levin. Thank you. Welcome. I am glad we are having this discussion.

You know, I think everybody favors economic growth. I do think we need to look at prior periods of economic growth when there was a dramatic increase of home ownership in this country and to take a look at the role that the mortgage interest deduction played. My guess is, if you go into a middle-class area like I represent, more or less, more than less, I think you would have testimony from people who bought their homes in the 1950s, 1960s, and 1970s as to the importance of the mortgage interest deduction.

And it is interesting, Mister, I think, Calabria, you mentioned a third are without a mortgage. I think we need to know how many of the people in that third paid off their mortgage over the years, and not just say a third.

And I have this chart as to who uses the mortgage interest deduction. I think we need to take into account the President's proposal relating to a cap of 28 percent. It would mostly affect those with income over $200,000. And it is interesting, of those with income between $100,000 and $200,000, it appears about two-thirds itemize and use the mortgage interest deduction. That is 14 million of 22-plus million. So we are talking about a major policy impact. And for those with income between $75,000 and $100,000, of the 16.5 million, over 6 million use the mortgage interest deduction.

So I think we need to be very careful. And when we talk that this is mostly a high-income deduction, that is sometimes said, it really challenges us to look at what we mean by high income, because I think people who are making between $50,000 and $200,000, most of them are comfortable, I don't think they would call themselves high-income wage earners.

So I would like to ask Ms. Gravelle, you mention in your testimony that as to tax expenditure and their elimination, the tradeoff, I quote, in quotes, "may be more apparent than real when considering the supply-side effects, such as labor, supply and saving." If you could elaborate what you mean by that.

Ms. Gravelle. Well, basically if I am going to earn an extra dollar and, say, I am paying 5 percent of that, say in State and local income taxes to take a simple example, and get a deduction for it, if I lose that deduction that is going to raise my effective marginal tax rate.

Well, every tax expenditure, virtually, except those for very low-income people, has those relationships to income. So if I spend an additional dollar and some tax-favored spending is part of that dollar, taking that away is no different from raising the statutory rate. It varies across the income classes, but what it means is that if you are thinking about trading up most base broadening for rates, you are not going to change the effective tax rate that affects labor supply or savings or entrepreneurship or whatever you are looking for. It is just not there in the works.

And if you do dynamic scoring based on statutory tax rates, you will greatly exaggerate, probably greatly exaggerate any growth effects. In fact, there might not be any growth effects, depending on what kind of subsidy you are talking about.

Mr. Levin. Okay. My time is almost up. I just want to say, I think, Mr. Swagel, it is true that the tax rate on investment is higher than on home ownership. I just think we need to be careful when we make those comparisons to take into account what home ownership has meant in this country. And we need to take a look at other countries which have had high rates of home ownership to see what the structures are there which perhaps encouraged home ownership. I think we need to be really careful when we make comparisons of any kind on this.

Chairman Camp. All right. Mr. Johnson is recognized for 5 minutes.

Mr. Johnson. Thank you, Mr. Chairman. Thanks for holding this important hearing on tax reform and residential real estate. And also, Mr. Chairman, thank you for asking me to serve as chair of the Real Estate Working Committee. I very much enjoyed working with the vice chair, the gentleman from New Jersey, Bill Pascrell, and we had our full and fill of meetings on real estate.

So I don't know if you guys can tell us any more than we have been hearing over the past 4 weeks or not, but I met with local homebuilders in my district, we met with them up here in Washington, we met with the realtors in both places. And I was once a homebuilder, so I understand the important role housing plays in our economy. At the meeting, one of the things I heard was that it would be more difficult for folks, especially first-time home buyers, to get a mortgage if the mortgage interest deduction was significantly cut back or eliminated entirely.

Mr. Calabria, as someone who knows a thing or two about housing and who supports getting rid of the mortgage interest deduction, I would like to hear from you whether you think there is any truth to what I heard from the homebuilders, in that it would be more difficult for folks to qualify for mortgages if the deduction was cut back in some way or eliminated.

Mr. Calabria. I think it depends on what you assume about house prices. And, you know, I think you will hear on the second panel, you have heard here that if we get rid of it, house prices will come down. And so I want to go to the point that the ranking member raised, which is I as a homeowner, if the choice given to me was would I like to pay a little bit less for that house or would I like to have the mortgage interest deduction and those two cases leave me equal, you know, payments, I would rather pay less for the house, quite frankly.

So I think that it is not going to be any harder, because prices will come down, which means people have to save less to buy that house. So, again, there are going to be price effects, but I think that that is actually a plus, not a minus.

Mr. Johnson. Well, as a builder, we never include that as part of our computation. You know, you build a house for X amount of dollars and you put the profit on there and you charge the people that price, and it doesn't make any difference what the deduction is.

Mr. Calabria. And I would certainly agree. As a builder or realtor, you have to take the market as a given, you know, because you don't necessarily drive the market, but the overall interest deduction does drive the market to a degree.

Mr. Johnson. Mr. Toder, your thoughts on that same question, please.

Mr. Toder. Well, you know, from people I have talked to, and maybe someone else can contradict this, I am not aware of banks, and I have dealt with several lately, asking anybody what their tax situation is when they are applying for a loan. They want to know your wealth, your income, your assets, but whether you are benefitting and how much from the deduction is not something that ever gets on the form, so I am not quite sure how it --

Mr. Johnson. No. They want to know if you can afford the payments.

Mr. Toder. Yeah.

Mr. Johnson. Okay. Thank you.

Mr. Calabria, later on we will be hearing from Gary Thompson, the president of the National Association of Realtors. And in his testimony, he argues that the tax system supports home ownership by making it more affordable. So is Mr. Thomas wrong here, or do you think the mortgage interest deduction inflates home prices? You have said it does, I guess.

Mr. Calabria. I think the mortgage interest deduction inflates home prices by a degree. I also think it is important to parse out, you know, the mortgage interest deduction is a subsidy for debt, not home

ownership. We can come up with a variety of ways. I would argue if we want to subsidize home ownership, we should be subsidizing home equity. Give households something to pass on, not debt.

So, again, part of my objective here is not to change effective tax rates or not to change home ownership rates, but to change the amount of leverage and indebtedness we have in the system so that households have real wealth in that house, not just a big mortgage.

Mr. Johnson. So in other words, you believe repealing the mortgage interest deduction would reduce home prices. You know, how much do you think it would reduce them?

Mr. Calabria. Let me first say, it depends on the markets. I think if you looked at someplace like Houston, where it is incredibly easy to build, there will be zero price impact. You look at someplace like San Francisco, and I think prices will come down something like 10 percent. So it really depends on how tight the supply is in that market. You are not going to see a uniform impact.

I would also add, in my opinion, the prices will come down in markets that are, in my opinion, way overpriced as it is. So, again, not going to be an impact in most of Texas.

Mr. Johnson. Yeah. I think I agree with you.

Mr. Toder, do you care to comment on that?

Mr. Toder. I agree. I think it is just very variable. I think probably there will be some impact immediately in all markets, because it is hard for housing to adjust immediately, but that will be very, very variable across markets.

Chairman Camp. All right. Thank you very much.

Mr. Rangel is recognized.

Mr. Rangel. Thank you, Mr. Chairman, for calling these hearings.

Ms. Gravelle, could you expand on the idea that if we reduce the top rate and broaden the base, that it could be a disadvantage to moderate and higher -- it could be an advantage for the moderate -- it could be an advantage for the higher income, but moderate and middle-income people could be adversely affected?

Ms. Gravelle. Well, if you want to achieve some of the rate reductions at the top that have been talked about, like going to, say, 25 percent, it is very hard to see a way to do that through tax expenditures or even -- there are not that many nontax expenditures you can think of for individuals, either.

So if you lower those rates and then do tax reform, and it is revenue neutral, then you would have to raise the tax burden on the middle class or low-income people. You know, there are only so many pieces of this puzzle. So either you can't lower those top rates with base broadening or people at higher incomes get a reduction in their tax burden and somebody else has to pay for it.

Mr. Rangel. Well, the theory that most of us use is that there are some preferential treatments that are given to individuals and corporations that if they ever had a reason for being, it no longer exists, and that the system is unfair, and that by eliminating what some call loopholes or others call unnecessary incentives, that this would give us the funds to reduce the rates without having a severe impact on the incentives that we talk about here.

So one person's loophole is another person's incentive, but basically speaking, you are saying that you could not reduce the top rates to 25 percent, even eliminating the so-called loopholes, that it would

adversely affect the moderate and middle income because we will be taking away from them tax benefits that they now enjoy?

Ms. Gravelle. If you are willing to raise the tax on capital gains to ordinary rates and change the scoring for that, that the Joint Tax Committee does, without big behavioral responses, if you are willing to tax capital gains at death, if you are willing to tax defined benefit pension plans and 401(k)s, there are some things there. What I am saying is I think most of those things are things that the people who are interested in trying to retain in a tax reform that will accommodate growth, that is not some of the things they want to do. So if you take those off the table you have very little left.

Mr. Rangel. So basically what you are saying is that politically we would not be closing the so-called loopholes in order to raise the type of revenue that would be necessary to lower the top rates.

Ms. Gravelle. Unless you are willing to go after those kinds of provisions.

Mr. Rangel. Just, you know, every time we talk about closing loopholes we get support from the Republicans until we try to do it. And then they say we are raising taxes on those people that we thought was equity. And then we have some people out there saying that they don't want any more revenue because more revenue means tax increases.

And we have to find what you have said, which is clear, that if you are going to close loopholes or bring equity to the system somebody is going to get hurt. And you can call it just treatment under the Code or you can stay they have to pay more taxes. But your statement is based more on the political will to do what we have to do than the fact that we can raise the money if we had the will to do it.

Ms. Gravelle. Well, it is not just political will. It is whether you think there are merits. I think there are a lot of difficulties in taxing capital gains at death, for example, or imputing incomes from defined pension plans. So we laid out all of those. So some of it is practical. Some of it is provisions of merit. Some of it is political. But it all looks to us very difficult to come up with the base broadening that you would need, particularly at the top.

Mr. Rangel. Thank you.

Chairman Camp. Thank you, Mr. Rangel. I certainly appreciate your comments but I think we will let the committee have a try on how difficult this will be.

Mr. Rangel. That is all right.

Chairman Camp. Mr. Tiberi is recognized for 5 minutes.

Mr. Tiberi. Thank you, Mr. Chairman. Mr. Calabria and Mr. Swagel, I found your testimony fascinating. I didn't agree with it all, but found it fascinating. Mr. Calabria, I love your last name by the way. You make a great point that is not often made in your written testimony on page 3: It should be emphasized that the deductibility of mortgage interest and property taxes is not exclusively to homeowners, in that landlords can also expense these items as well as claim a depreciation allowance for rental properties.

Here is the point. And I don't think you realize you made this point. If I own rental property and my taxes go up, I increase rents. If you take this away -- not you, we -- if we take this away from an owner of rental property, you don't think rents are going to go up? They are. I am not going to allow you to answer, because I got to tell you I own property and they are. They are going to go up. That wasn't a question. That wasn't a question.

And so here is another point I wanted to make and then I will let you guys shout if we have any time left. Mr. Swagel, higher income households tend to purchase larger homes with greater home mortgage debt and thus receive larger tax subsidies. You forgot to mention the AMT. The more people, taxpayers, have deductions and credits, the more they have higher income, higher mortgage interest deduction, higher property taxes, higher deductions on their return, the more likely they are going to be subject to the AMT. And I am painfully aware of that.

So the other point that you both made was with respect to higher income. The data that I have in front of me from Joint Tax from 2004 show that 75 percent of the mortgage interest deduction benefit was collected by those earning less than $200,000. And the majority of those less than 200,000 made less than 100,000. And I would argue -- I don't have the stats for this -- the closer you are to 200,000, the more likely you are going to be subject to the AMT which you are going to be paying again more taxes.

Final point, theory versus reality as somebody on the street who was a realtor I will tell you my bias. I was a realtor. Never once did I have a client say to me, Pat, I want to buy this house because I can get a higher mortgage interest deduction. Or I want to buy this house because the property taxes are higher. Actually people wanted to go where property taxes were lower. Even if they were actually itemizing their deductions, they didn't say, boy, I want to go pay more taxes so I can deduct more of my income. I have never seen that behavior as a realtor.

Final point and then I would love to have maybe your thoughts, both of you, is Mr. Swagel in particular, you mentioned the low income housing tax credit. As a Republican I would argue if you look at all the housing policy that the Federal Government does, and unfortunately Mr. Camp doesn't have jurisdiction over all of it. We only have jurisdiction over some of it. Whether it is at HUD, whether it is Section 8 housing -- very familiar with both programs -- or whether it is the low income housing tax credit. As some who tilts to the right from your testimony, why wouldn't we be encouraging public-private sector support? Maybe the amount is wrong, maybe the subsidy is wrong, but isn't it a good thing to get the public and private sector working together, which is exactly what the low income housing tax credit does. It gets the best of both worlds. It has the Federal Government involved. It has the private sector involved. It has nonprofits involved.

And in my community, I have got to tell you, if you and I went to tour housing for low income people in my community in central Ohio and you looked at HUD property and you looked at Section 8 property and you looked at low income housing tax credit property, there is no comparison in terms of what is the best managed, the best utilized, the best housing for low income individuals.

And I take issue with the fact that we don't have low income housing. I can give you a property in my district on Livingston Avenue that has homeless veterans transitioning in their lives in property. And they went literally from the streets into low income housing tax credit property into the work force. It is a fabulous, fabulous property. Go ahead.

Mr. Swagel. I would say the goals of the both the mortgage interest deduction and the low income housing tax credit are laudable and I fully support the goals. The question as I have written in my testimony is the targeting. And it is a open question in the economics literature for the LIHTC how effective it is. Do the benefits of this taxpayer support, to what extent do they result in new units?

Mr. Tiberi. Help us improve it. Help us improve it.

Mr. Swagel. That is exactly it.

Chairman Camp. The time has expired. Mr. McDermott is recognized.

Mr. McDermott. Thank you, Mr. Chairman. Russell Long, the old finance chairman in the Senate once said that tax policy is "Don't take you, don't tax me, tax the guy behind the tree." I appreciate you having this

hearing because I think we need to wake up the people because they are the people behind the tree in this one.

And Ms. Gravelle, Mr. Calabria and Mr. Toder concede that the elimination of the mortgage interest deduction would reduce housing prices. They seem to think it might be a good thing since it would lower cost presumably for new buyers.

Now, we already heard that 70 percent of the people who get this deduction are making less than 200,000. And I want to know how such a policy would affect seniors or people who are soon to retire who may have a significant portion of their savings in their house. To see their house drop by 10 or whatever, we don't know, we are just guessing how much percentage. In Seattle they dropped about 30 percent in 2007. So we don't know what is going to happen.

But we are setting in motion a policy to pay for a reduction in corporate taxes down to 25 by taking it away from homeowners and people who were told by their father, as everybody on this dais was and practically half the people in the audience, when you get a chance, buy a house. Everybody in this country was told that. And some make it and some don't. So what happens to those people?

Ms. Gravelle. Well, in every transaction on the demand side there is somebody on the supply side and if we use housing that is the seller. Clearly if house prices fall the people who are selling their houses are going to lose money from that. I would say though I am not convinced there is going to be a large effect, at least not in the long run. We are talking about permanent tax policy. Simply because in the long run the supply curve for housing is probably pretty flat. The only thing that would happen would be land. Maybe land would have an effect.

But in the short term, the people who are within the few years while the market is adjusting, yes, it is going to be like a one-time -- if you have a price fall it would also be partly a one-time hit to them as well as a hit to the demanders who are having a direct tax reduction.

Mr. McDermott. Suppose this committee decided that we would allow you to have a detection for interest on any loan under $300,000. How would that affect the country? I mean, I look at the loan amounts State By State and all of the ones who are in the top 14, with the exception of North Dakota and Utah, are on the coast. They are either Hawaii, Washington, Oregon, California or you start down the East Coast and you get all the way down to Virginia. So what would happen if we set a cap? Let's say we will allow you a deduction up to 300,000?

Ms. Gravelle. Well, that is the proposal people are talking about now,lowering the cap. I mean, it just depends on where in the income distribution you want to constrain this benefit. So if you lower the Cap to $300,000 -- mortgage interest you are talking about -- then you are going to have a smaller part of the community of the homeowners having a marginal deduction.

One of the problems though with these caps on deductions is they kind of worsen the problem that I talked about. I mean, you are creating essentially a bigger inframarginal benefit. So you are going to have more marginal tax that are sort of raising effective tax rates at the margin to trade off against the rates. But basically that is distributional. Right now the limit is a million dollars and you will reduce substantially upper middle income class individuals who would be -- their benefits. And you would retain benefits for say the 75,000, 100,000, those kinds of taxpayers.

Mr. McDermott. Yes, go ahead.

Mr. Calabria. I want to make two quick points, which is as I suggest in my testimony, I think we can do this in a way where the same households who would be losing the mortgage interest deduction also see a corresponding decline in their tax burden so that we can construct this in a way that those households are held harmless tax wise.

And second, let me say you know on average overwhelmingly homeowners are wealthier than renters. And so to me, I think if we made it easier for renters to buy at the expense of households that reduces wealth inequality, which is something I think we are concerned about.

Mr. McDermott. We are talking about simplifying the Code, aren't we? And you are talking about adding 53 more pages to talk about this tradeoff between -- I don't see how you make it simpler for the average person. For instance, John and I both got extensions.

Chairman Camp. Thank you. Mr. Reichert is recognized.

Mr. Reichert. Thank you, Mr. Chairman. Thank you for being here with us today.

All of us in this room, and across the country recognize how difficult it is going to be to accomplish tax reform. But the process that we have been going through over the last couple of years now has been one of the most open. And I am only -- this is my ninth year in Congress. I had a career prior to arriving here. But in my tenure here this has been one of the most open and transparent processes that I have been engaged in and I think most members of this panel will agree with that.

As the chairman mentioned, we have had over 20 hearings regarding tax reform, all aspects of tax reform. One hearing associated with the working group that I work on -- that I co-chair on tax exempt organizations -- one hearing was 8 hours, 42 witnesses just a month or so ago. We have had working groups with hearings and discussions, open to all the members here on this panel and open to all of you and the public.

We have had discussion papers have been issued for people to review, open and transparent and all recognizing that we need to do tax reform.

And this political rhetoric from an old cop's perspective is really becoming tiring. What we need to do is work together for the American people to make sure that the tax law works for them, that we are not continually taking away from the American worker, from the hard working citizen every day. They need a simpler tax form. They need a fairer tax form. And I think again every member of this panel would agree with that.

So to throw political bombs every time we have one of these hearings is becoming pretty hard to stomach from my point of view.

So I know there are people listening today across this country when they see this on some sort of a rerun sometime this evening, and they are thinking, you know, I am a family and I am looking to buy a home. My first home. Or if I have now owned my home for a while and now I am a family that has been able to work up the ladder, the economic ladder, and now I want to buy a second home. Or later in life, now over 60 like I am, maybe I am thinking about buying or selling my home and how does that affect me as I exit the home market, the discussion we are having?

So at least these three points, the first home buyer, the family looking to buy a second home, or we have someone who is nearing retirement and looking at maybe selling their home, can you tell me how the mortgage interest rate deductions affect all of the families that I have just mentioned in each situation? Mr. Swagel, would you care to comment, please?

Mr. Swagel. Sure. I would focus on the first one that you mentioned, because I think that is critically important to support the goal of home ownership and getting people from rental to home ownership. And mortgage interest deduction helps, it is just the benefits of that are mainly to people who don't need the help. I mean, it is the structure of our Tax Code. Most first-time home buyers are not spending a million -- don't have a mortgage of a million dollars. We subsidize a million dollars, 1.1 including home

equity. So the first-time home buyer gets help. Probably most of the benefits go to people who are not in that category.

If we are exiting then, if we are someone who exits home ownership and goes into rental, so they are losing the tax benefit. And for many people home ownership as they age isn't the right thing. And if this were providing them an incentive, the tax system is biasing their choices. To me, that is the biggest problem. We don't want the tax system to tell people what to do or to bias them on what to do. And I think that is the case.

Mr. Reichert. If you have a senior, for example, my father-in-law has just sold his home. His spouse, my mother-in-law, passed away 3 years ago. He sold his home and guess who he is moving in with. But he has been able to pay off his home. So we tax his income, income that he could use from that home to help subsidize his retirement, medical bills, et cetera, that he might have. That doesn't make sense to me that the government is going to take away from a prudent man who has worked hard his entire life who is 88 years old. We are now going to take away some of his ability to pay for his retirement. Does that make sense to you?

Mr. Swagel. I actually support the exemption for capital gains, the capital gains exemption.

Chairman Camp. All right. We will have to leave it at that.

Mr. Lewis is recognized.

Mr. Lewis. Thank you very much, Mr. Chairman. And thank you so much for holding this hearing. I want to thank all of the witnesses for being here.

Mr. Gravelle, since the stock market crashed in 2008, my district in Metro Atlanta has been troubled with foreclosures. I want to go to what Dr. McDermott implied. Community and families were turned upside down and there are still many of these families in the communities and neighborhoods are troubled.

In 1944, when I was only 4 years old, my father had saved $300. He bought a house, a home. He had been a share cropper. Bought a house and 110 acres of land. I know this is not 1944, but is it right, is it fair, would it be just for us to say to a working family, to a middle class family that we are going to snatch the rug from under you?

We have been told over and over again buy a piece of the rock. Own your little piece of land. Own a house. The Federal Government should be about helping, caring. Could you comment?

Ms. Gravelle. Well, I think -- first of all even though there is only about a third of people who use the mortgage interest deduction, two-thirds of people, families have their homes. And as I said I think one important issue to keep in mind this is an asset for middle class families. They have --

Mr. Lewis. It is a major investment for middle --

Ms. Gravelle. If we look at the data we see one of the ways that people save is by acquiring a home. And whether they sell that home or whether they have a home that they don't have a mortgage on when they retire, either one of them helps in their retirement benefit.

So I think that is something to take in account. A lot of economists are very critical of the mortgage interest deduction for a lot of the reasons I have heard here and I am certainly aware of those. But I do think that is an important issue. And by the way my daddy was a share cropper too and I came from Georgia, so we got some things in common here.

Mr. Lewis. Thank you. Well, you understand.

Ms. Gravelle. I understand poverty.

Mr. Lewis. Thank you very much. I yield back.

Chairman Camp. Thank you.

Mr. Roskam is recognized.

Mr. Roskam. Thank you, Mr. Chairman. I just want to thank the panel. I feel like Tevye here in Fiddler on the Roof. On the one hand and on the other hand. I could listen to you talk for quite a while because I am finding myself learning things and that is what hearings are for. So thank you for your testimony and the sincerity with which you are approaching this.

Mr. Calabria, a question for you as it relates to transitions. Let's assume for the sake of argument that there is a sunset on the home interest deduction. How do you contemplate a good transition, good set of transition rules, or how does that play into somebody that has operated on an assumption, that is a reasonable assumption, and that is hey, this thing is here to stay and they take on a 30-year obligation. What is the transition that is reasonable and fair and doesn't pull the rug out from underneath the taxpayer?

Mr. Calabria. Let's start with observation that it is a 30-year obligation, but the median life of a mortgage has historically about 7 years. And in this interest rate environment I think it will be closer to 8 or 9 because people are less likely to want to get a new mortgage with these low rates that they have today. With that said, the transition window doesn't need to be 30 years. I think 7 or 8 would be the outside transition window that I would have.

But you certainly could say whether you have got a mortgage today versus people getting new mortgages coming in, I do think there are ways to make people held harmless.

I also would note for families under 100,000 in income, the average I believe is they are getting about $200 in value annually from the mortgage interest deduction. For these families you could certainly just increase the standard deduction by 2- or $300 and they are held harmless post tax wise.

So some of this question is do you hold them harmless on their mortgage? Do you hold them harmless on their tax burden? And so I think we could actually do this simply. Because you could certainly do it through standard deductions. You could do it through other ways that are not all that complicated. Of course you can also do it in complicated ways.

Again, I would not have a transition period that goes more than 7 or 8 years tops. But I think you can front load that in 3 or 4 years and most of the benefits and most the costs would be there. But again I want to emphasize I believe it should be done in a budget neutral way where you are leaving the same families more or less the same after tax. They are just not tied to their mortgage.

Mr. Roskam. I understood everything you just said. What about the person though that isn't part of the average or isn't part of the mean, they are outlier and they tend to write their Members of Congress, and they say, look, you know I have a 30-year mortgage. So are they pressing their nose up against the glass looking in or do they get accommodated somehow?

Mr. Calabria. Again the question is whether you want to hold them harmless on the house, which again that only matters in tight housing markets. Again in places like Houston there is not really going to be a long run price impact. Are you going to hold them harmless after tax? Now I think you could hold them harmless after tax by again looking at things whether you want to give a special deduction for your

homeowner. And if you want to subsidize ownership, you can give a deduction for a homeowner whether they have a mortgage or not.

My primary point here today is that if we care about home ownership, we should not be tying it to a mortgage, we should be tying it to home ownership, which again, I am skeptical whether the benefits outweigh it but again that is what the discussion should be about, not about having a bigger mortgage.

Mr. Roskam. The phrase that you used during your testimony or during one of the responses, you said give households something to pass on, not debt. What did you mean by that?

Mr. Calabria. If I want to have a variety of ways to try to get people into home ownership, certainly some sort of matched down payment assistance could be a direction. If you want to help them try to build equity -- I will use myself, I live in the District of Columbia so unsurprisingly I have a large mortgage. I think what bothers me is the fact that -- and again I don't want to paint myself as representative, but I would like to pay more of it down. But the fact that I will be penalized by the Tax Code for reducing my own leverage strikes me as ridiculous. It is making me make bad decisions.

Mr. Roskam. Thank you. I yield back.

Chairman Camp. Mr. Neal.

Mr. Neal. Thank you, Mr. Chairman. Thank you to the panelists. There are few items in economics that touch every aspect of economics like housing. Income elasticity, supply, demand, tax policy. And I associate myself with Mr. Tiberi and Mr. Lewis on this, because I think still trying to get people into home ownership is a desirable goal.

My public life was in local government and trying to generate new units and trying to find a place where interest rates and price would get people into the market. We were able to come to one fast conclusion. Once people owned a home they really helped to transform the neighborhood. They made pretty good decisions every day. If you are working and you own a home, it is part of building a community.

I think one of the dangers of the tax reform discussion that we are having, and it is a long way off I think to conclusion, but certainly a compliment to the chairman as well on conversational tone of these get-togethers that we have had, because they really have been learning experiences. But I think be we need to be mindful of what broadening the base could mean.

Broadening the base really could mean that middle income people are going to be paying more in an effort to cut that rate from 35 to, as the President has suggested, 28 and members on the other side have suggested 25. But the homeowner deduction really does serve a very necessary purpose and that purpose is getting people who can do it -- I think one of the outcomes of the financial crisis that we witnessed was -- albeit a slow discovery, but renting is a good idea for some. But nonetheless still in an old city in New England home ownership is essential.

I thought that some of the testimony, particularly from Ms. Gravelle, you suggested that identifying tax provisions that would allow significant reductions in the top rates while maintaining the current distribution of tax burdens, what do you mean by that exactly?

Ms. Gravelle. Well, again, in our report we identified a handful of provisions that are significant at the top. That is capital gains, capital gains at death, dividends, pensions, and then the two itemized deductions really important for those folks, charitable contributions and State and local income tax deductions. But 70 percent of those provisions are related to savings incentives.

So if you are reluctant to go after those savings incentives, and there are reasons you might want to be, that makes it very hard. If we eliminate all itemized deductions as we said, we got about 5 percentage points. So that is a long way from the distance that people were talking about for the top rate.

Mr. Neal. Well, I have an interest in savings here, how to generate greater savings and as you have described it, maybe you could comment on this, I suspect the answer might be in some measure a bit illusive. But there are some who put the Devil's advocate hat on that say that after you do home improvements and after you keep adding on an additional room or you keep exploring new ways to improve the property that in some measure it might not look quite as good or as appealing as it originally did as you relate it to the whole notion of savings. Could you speak to that?

Ms. Gravelle. I'm sorry; could you clarify?

Mr. Neal. Well, there are those who argue from time to time that after one gets done improving a home over the course of a 30-year mortgage and all the things you do, because as you improve the home property taxes go up and even the value of the home might not go up, given what has happened in the last 5 years which remains fairly stable, there are those who say it is not quite as good a deal as it ordinarily would be. But is that a vagary of the marketplace or just a --

Ms. Gravelle. Well, I think that is the marketplace. I mean, if you look at housing before the housing bubble burst, housing looked like a very, very good investment. At least my house was a good investment. It fell down a little bit. It is going to come back up. I mean, this is a blip in the market.

So I think homes are not a bad investment. The only way in which they are kind of questionable is that if you put too much your money in a home you don't diversify your portfolio very much. But then that is savings that you wouldn't have had anyway and people do tend to be a little myopic about savings sometime. They don't really think about the future as much as perhaps we economists say they should. If it is just extra saving, then that is all to the good for your ability in retirement to have a decent standard of living in retirement.

Mr. Neal. Mr. Calabria is pining to get an opportunity here.

Mr. Calabria. I just wanted to make two quick points. Professor Schiller at Yale has estimated -- put together a price series for the last hundred years and has found that the after-tax return of housing over the last hundred years has averaged 1 percent annually. So I do think the last --

Chairman Camp. We are going to have to leave it right there. We will go to Mr. Buchanan.

Mr. Buchanan. Thank you, Mr. Chairman. And I want to thank each of our witnesses for being here today. I am a member from Florida and this recession has been brutal on home builders and jobs. Florida is growing at a thousand people a day you know over the last couple of decades or so. And we are in a tendency now where we are starting to come back. But a lot of our builders have been basically put out of business, but they are starting to come back.

But I will tell you this, what I have seen lately and really over the last 30 years, the interest deduction does make a difference. I see a lot of homes that are being built in our area, the ones that can afford to buy a second home or buy a home, a lot of them, 70 percent, are paying cash. But the other part of it in terms of southwest Florida, there are a lot of people who are buying homes for 200, 250, 280. That is where the marketplace is. I think of two or three of our largest home builders that have survived this and that is where their focus is.

A lot of those are young families, first and second home buyers. A lot of them have student loans or they are people that are working, technicians in our area. They are making 50,000 a year. They are being

squeezed in terms of higher health costs. Everything else in their area. But the interest deduction to a lot of them is a different of 2 or $300 when they look at the overall payment that they are going to get back or to have that break in terms of going forward.

So I would just ask Mr. Fleming when you look at this, this hasn't just been a recession in Florida. I hate using this word, but it has been a depression. We are starting to get some momentum coming back, especially in terms of homes 250 and under. What impact will this have you think eliminating that deduction? I just see a lot of people that would have a huge impact in our area.

Mr. Fleming. Yes, it is true. You unfortunately are from one of the poster childs of everything that went wrong in the housing market over the last 5 years. And there is recovery there. In large part actually the housing recovery that you are seeing is being driven by what are typically abnormal forces in the housing market. Institutional investor activity, lots of cash buyers. These are not the normal things that drive prices up. It is typically growing incomes and first-time home buyers entering the market and things like that.

It is hard to stay, I guess. I was laughing with a colleague of mine this morning saying the only thing I can be absolutely sure about with the mortgage interest deduction is that given that it creates both the incentive to consume more homes and some level of increased home ownership in and of itself. But all of that urban sprawl and traffic that I had to drive through to get here this morning can be attributed in part to mortgage interest deduction. Of that I am sure.

But in other terms I think we have to be very careful. The price responses to something like a change, any sudden change. My testimony kind of gets to the point that suppliers, sellers, and buyers immediately respond to temporary change or immediate shock. Right? And we saw it in the first-time home buyer tax credit, we saw it with the capital gains tax.

So the idea of an immediate shock happening, yes. The magnitude, harder to tell. Most of the models that we look at, the econometric models that come up with estimates of the price changes, basically hold the supply side inelastically fixed. In other words, there is no supply response to the impact. So of course the price response is bigger. In the immediate term that is true. It takes on average 9 months to build a home. Right? But in the longer run, of course there is going to be some sort of supply response to it.

So it really gets down to, yes, maybe there is an immediate shock but the overall longer run benefit is not necessarily as strong as the estimates that are empirically derived show.

Mr. Buchanan. Any of the other panelists, I would like to get your thoughts.

Mr. Calabria. I will make a couple of quick -- clearly in my proposal I want to hold those families harmless after tax. I want to emphasize that. Second, 180,000 and below, if that is your only deduction is the mortgage interest deduction, you are better off itemizing. And we see that. And second, as I mentioned in my testimony, the value of the mortgage interest deduction fluctuates with interest rates and interestingly enough if you did a time series when you value the mortgage interest deduction at its highest it is actually which construction is at its lowest. So they are inversely related. So I have seen very little if any evidence to suggest to me that we see extra construction because of the mortgage interest deduction. Ultimately construction is driven by population and household formation.

Mr. Buchanan. My point I was trying to make, in the real world just looking at on the ground there, there are a lot of families, whether they are 30, 35, two workers in the family, that deduction of 2 or $300 makes a difference per month because that is what they are going to see. And the second point is we are historically low in terms of our interest rates at 3 or 4 percent. If you go back over 30 years, I remember you could not get a mortgage rate under 10 percent, but normally 7 or 8 percent. Again, that would even be a bigger issue for them going forward.

Chairman Camp. Mr. Pascrell is recognized.

Mr. Pascrell. Thank you, Mr. Chairman. As was mentioned previously by Chairman Johnson, we worked over the last several weeks having I think seven really concrete meetings with different groups and looking at the possibility, not only in residential but commercial real estate. And our objective, Mr. Chairman, was to see whether some sheltering of income, some incentives, or any of them, made sense in terms of economic strength and fairness. I think that was significant in every group that we talked with, and it was certainly an elevated discussion all the time and it was civil and thanks to Mr. Johnson I think we did a lot of work in a very short period of time.

The Tax Code has many provisions that impact residential real estate. And some of them, including mortgage interest deduction and deduction for State and local property taxes, are among the largest expenditures.

It is not a surprise that they would be looked at in a quest to eliminate expenditures to lower the rates. But I think we need to proceed with caution. And you heard that this morning from our great panelists here.

These expenditures are large not by accident. They are large because they are well understood and utilized by the middle class. We can't simply do tax reform and we can't do tax reform simply for tax reform's sake. We want to come out of this. I mean, most of the pages that are written in the Code were not written by you, Mr. Chairman, or me. They were not written by average middle class folks. Huge groups could afford a lot of lawyers, want to hide certain parts of their income. They are not criminals to do that. But we are looking at what is fair and what is not fair. And I think both sides would agree to that simple statement.

Ms. Gravelle, I had a question. In your testimony you made a point that the tax preferences for owner occupied houses like the mortgage interest deduction and the deduction for State and local taxes, are not the tax preferences most significant to the top tax brackets. I think that is what you said. Am I correct?

Ms. Gravelle. Yes. Yes, that is right.

Mr. Pascrell. I strongly believe that we need to do something about income inequality in this country. Now, according to a recent study by Samuel Saez of University of California Berkeley, the top 1 percent of households captured 121 percent of income gains between 2009 and back to 2001. The 99 percent actually poorer. Between 1993 and 2011 the top 1 percent income grew by 57.5 percent while income in the rest grew 5.8 percent.

What is the percentage of taxpayers with incomes over a million who take the mortgage interest deduction? Do you know that?

Ms. Gravelle. I think it is a large percentage. But it is a small percentage of their income. High income people have houses and sometimes they have mortgages, but I imagine Eric is pointing his finger here; he knows this answer better than I do.

Mr. Pascrell. Go ahead.

Mr. Toder. I think about a third of the people with income over a million take the mortgage interest deduction. And many of them have already either paid down their mortgages. Or actually I should stay benefit from it, because we assume that if you eliminated the mortgage interest deduction many of those people would just simply pay off their mortgages.

Mr. Pascrell. Does that hold also for State and local taxes?

Mr. Toder. Almost all of them would be taking State and local tax deductions.

Mr. Pascrell. So pretty much the same; right?

Mr. Toder. Right.

Mr. Pascrell. According to the Joint Committee on Taxation, 75 percent -- 75 percent of the MID is claimed by taxpayers with incomes below 200,000. That is what Mr. Tiberi, Mr. Levin, pointed out before. It is about the same for State and local taxes. And I agree and associate myself with the words of Mr. Levin and Mr. Tiberi. If we eliminate the deductions for mortgage interest and State and local taxes, how much would tax rates have to come down in order to ensure the middle class is going to be paying an overall lower effective rate?

Chairman Camp. If you could answer briefly because time has expired.

Ms. Gravelle. Just in my memory, I think it is somewhere -- that class of those deductions are about 10 percent of income. So you are talking about a 10 percent rate reduction.

Chairman Camp. Thank you.

Ms. Jenkins is recognized.

Ms. Jenkins. Thank you for being here. Thank you, Mr. Chairman.

Mr. Toder, your testimony comes to the conclusion that the mortgage interest deduction does a poor job at promoting home ownership. It mentions studies that have compared home ownership rates in countries like Canada, the United Kingdom and Australia. Can you just elaborate for us on how the U.S. compares in terms of overall home ownership rates to those similar countries and what sort of policies do those other countries employ to promote home ownership?

Mr. Toder. I am not sure what all the policies are in terms of their financial market policies, but Canada, Australia and New Zealand have all eliminated the mortgage interest deduction, which they previously used to allow. The United Kingdom has been phasing it out over a long period of time. They were actually doing it through the banks, so you would get it at the basic rate. The people above the basic rate wouldn't benefit from it. But they gave the subsidy to the lender and that had the same effect, really had the same effect as the proposals I am talking about, as converting the deduction to a credit, which would give the same percentage subsidy to everybody. So that was the way they did it. But in all of those places the home ownership rate is at least at high as it is in the U.S.

Ms. Jenkins. Okay. Speaking of that, you noted that recent major tax reform proposals, including Simpson-Bowles and the President's 2005 Tax Reform Advisory Panel and the Bipartisan Policy Center, have all recommended moving from an interest deduction to tax credits.

The general consensus appears to be between 12 to 15 percent credit and either refundable or nonrefundable. I believe that you worked on the Bipartisan Policy Center on developing their tax reform proposals. So could you just describe for us how the determination was made to arrive at that credit level, whether to make it refundable, and some sort of deliberations that took place?

Mr. Toder. Sure, I would be happy to. I was a consultant to them. I was not a decision maker but I was helping them with the analysis.

Ms. Jenkins. Okay.

Mr. Toder. They were trying to get a much broader tax reform as part of an overall package to reduce the deficit, so their tax reform was actually raising revenue a bit. They started out with the idea that they wanted to get rid of as many tax expenditures as possible but came to the conclusion that some of them had to be retained in some form, one of which was mortgage interest, another one was charitable.

They also developed the very far-reaching idea that they would like to get many people out of having to file tax returns. So the way they went about that was they restructured all of the basic benefits. They eliminated the standard deduction, personal exemptions, and the earned income credit. They replaced them with a flat child credit and a flat earning subsidy.

So they set it up so that if you were in the lowest tax bracket, and you didn't have a lot of capital gains, you didn't have to file a return. If would all come out through withholding. And so this kind of mortgage interest subsidy fit into that. It was a subsidy at the basic rate of 15 percent, which was the bottom rate in their proposal.

Ms. Jenkins. Yes?

Mr. Swagel. I would just like to add to what Eric said, the comparison between a credit and a deduction is an important one. The deduction is valuable to people at the bottom, but it is really valuable to people at the top. Whereas the credit is of course is the same amount for everyone, depending on whether it is refundable or not.

So that in the sense of moving from deduction to credit probably better focuses the taxpayer resources on lower incomes. Because for the person starting out, Mr. Buchanan, a person buying a $250,000 house, they will get the same credit as someone using the full $1.1 million of deduction, whereas in the current system they don't.

Ms. Jenkins. Thank you.

Mr. Johnson. [Presiding.] Mr. Davis, you are recognized.

Mr. Davis. Thank you, Mr. Chairman. I want to thank all the witnesses for coming. Ms. Gravelle, the National Housing Trust Fund was authorized in the Housing Economic Recovery Act of 2008 specifically to address the housing needs of extremely low income households. The NHTF is a block grant to States that, once funded, can be used to produce, preserve, rehabilitate and operate rental homes for very low income households. At least 90 percent of the funds must be used for rental housing and at least 75 percent must benefit extremely low income households.

The NHTF is intended to be a permanent program with dedicated sources of funding, not subject to the annual appropriations process. The funds are to be distributed by a formula based on factors detailed in the statute with a $5 billion investment. Michigan would receive $146.1 million. The NHTF was initially to be funded by contributions from the government-sponsored enterprises, Fannie Mae and Freddie Mac; however, shortly after HERA was enacted the financial crisis hit and of course these agencies were taken over by a conservatorship and funding was suspended. And, of course, Congress has never actually put the money in in the first place.

The National Low Income Housing Coalition has talked a great deal about assistance to renters, that these individuals need some kind of help and could benefit greatly from it. And there have even been some who have talked about a renter's tax credit. How do you respond to those kind of thoughts?

Ms. Gravelle. Well, you could have a renter's tax credit for low-income people if you make it refundable. But it wouldn't work otherwise, because very low-income people don't generally pay taxes because of the earned income credit and other provisions. I mean, for getting money to low income housing there are a lot of different routes. Low income housing credit in the Tax Code is one method, but it has to pass through a lot of middle men on the way so a lot of folks think that grants would be better.

And then, you know, the other thing you could do is give people vouchers for rental housing just directly from the government. Or as I said, you could do it through refundable tax credit. The problem is people

who don't file taxes then would have to file. A lot of people do, if they are working, because of the earned income credit. But there is always -- for this particular objective there is a lot of different ways to get there.

And I would say -- maybe Eric can tell me what he thinks -- the consensus is that usually these things are better done through spending rather than routing them through the tax system.

Mr. Davis. Are there any other thoughts or ways that we might want to look at or could look at to try and make sure that these individuals or this category of citizens actually get some benefit that might move them a little bit beyond where they are relative to decent housing?

Ms. Gravelle. Low income housing issues in general are not really something that I have studied a great deal. But I think there has been a concern about diversifying the neighborhoods so you don't have just pockets of low-income people in the same place. Those are some of the issues I know that came up with public housing.

But I think an economist might say the easiest way is to give people a voucher to help pay their rent. That might be the easiest and most straightforward way to do it.

Mr. Calabria. I will just mention real quick, because I mentioned in my testimony, the real difference between owners and renters is that we don't tax imputed rent for owners. And I suggested in my testimony that we stop taxing rent and we could limit that to rents charged below a certain level that are affordable. And if the market is competitive in certain places that will get passed on to the renter.

Mr. Davis. Thank you both very much. Thank you, Mr. Chairman. And I yield back.

Mr. Johnson. Thank you. Mr. Paulsen, you are recognized.

Mr. Paulsen. Thank you, Mr. Chairman. I have actually found this testimony very enlightening. It is part of that whole process of really diving in deep as to what the Tax Code is really about, because it is deep. If you do make changes in one area, it impacts quite a few different areas in other sections of the Code.

Again, this is not about doing tax reform for tax reform's sake. This is about finding real solutions for a broken Tax Code. Everyone acknowledges the Tax Code is broken and we need a Tax Code that helps America compete and win, that grows the economy, that grows jobs. And we need a Tax Code that is a lot simpler and fairer so that an average family can actually do their own taxes.

I find it astonishing that still nine out of 10 American families are either required to pay someone else to do their taxes or purchase some sort of commercial software in order to do those taxes. And that is just not a Tax Code that is designed for the average person obviously in terms of simplicity. That is a Tax Code that is designed for accountants and lawyers and others.

There is a lot of inefficiency and it really is time for us -- and we are doing the right thing in terms of having 20-plus hearings, laying the groundwork, moving forward with these working groups, to making sure it is not going to be a continuing process of just special interests and handouts and bailouts, but really getting into the details.

But I want to dive into a little bit more in the low income tax credit. This is an area where I have spent some time with some folks in Minnesota. I have seen the homes that the low income tax credit has actually produced through rehabilitation and loans to individuals. I do hear from the providers all the time that this is a credit that is a very effective way of producing affordable housing and providing homes for those who need it.

So knowing that that is the case -- and part of the problem in the past has been I wonder is this tax provision going to be get extended, is it going to be extended once again? So there is no certainty, there is no predictability for building the housing. So that is one of the goals of tax reform, is to make sure that we have predictability and certainty.

But just to follow up, what would happen if that tax credit just went away? Would making that tax credit permanent improve results or whatever takes its place improve results? And is there a way we can actually improve that credit for better results? It has been a public-private partnership. Mr. Swagel, you talked a little bit about that in your testimony. I know this is a long section of the Tax Code. But can you just maybe elaborate a little bit more?

Mr. Swagel. Sure. I think the permanence would be really important. It could get at this uncertainty. The other thing that would help is that the value of the tax credit varies with the economic cycle and the demand for it. And so there is a sense in which it is not clear that the Tax Code is the best way to do this. If we want more supply of affordable housing units, which I think as a nation we do, it is probably better done as spending and not to run it through the Tax Code.

The other thing that might be considered, and again it is not argument to say do less of it, it is really do it better. But I think so my testimony questions its effectiveness. And really it is that, is it effective and what is the best way to make it effective? Because we want to do both supply and demand, not supply or demand. The vouchers will help on the demand side and I think the affordable housing tax credit were a better way of doing it could help on the supply side.

Mr. Paulsen. Mr. Calabria?

Mr. Calabria. Honestly, I have been a little skeptical and certainly looked at the low income tax credit over time. I certainly understand why users of a program think it is a great program. But to me the academic evidence suggests, A, there is a tremendous amount of crowd-out and about maybe half of the units would have gotten built otherwise. B, there is evidence to suggest that most of the subsidy ends up with developers, syndicators, and lawyers. And I have nothing against developers, syndicators, and lawyers, all good people, but they are not necessarily who I think we should prioritize subsidizing.

And so I am skeptical of it as a delivery vehicle. My tendency -- I really -- I know that public-private always sounds like a good thing, but I remember for years telling what a great public-private partnership Fannie Mae was for the government and that didn't turn out so well.

So I do think we need to rethink some of what that means. I think Phil alluded to this earlier, I think that we should directly subsidize the people that we want to directly subsidize. If we care about low income households, let's subsidize low income households. I am very skeptical of doing roundabout ways through intermediaries. If the problem is somebody is poor, let's make them not poor. That seems like a pretty straightforward way of doing it to me.

Mr. Swagel. One other thought to add to it, what you heard from the constituents in Minnesota is on the upkeep. And that really is the case. That the tax credit subsidized units do have better upkeep and that eventually those units go back to a fully private model. And I think that is the challenge. How do we get that? How do we make sure that low income subsidies are not just Section 8, not just for low income people, but the diversity and that incentive for better upkeep.

Mr. Calabria. The geographic evidence suggests to me that tax credit properties do get built in areas that are already high concentrations of race and poverty. So I tend to be more preferential to vouchers because I think we want to be able to get people to get into good communities rather than continuing to build properties in neighborhoods that already have problems and high concentrations of poverty to begin with.

Chairman Camp. [Presiding.] Time has expired. Ms. Sanchez is recognized.

Ms. Sanchez. Thank you, Mr. Chairman. And I want to thank all of our panelists for sharing their thoughts with us today.

I represent a pretty working class district in southern California and my constituents work very hard, often long hours and multiple jobs in order to just save up the money to purchase their first home. So for me it is incredibly important to make sure that we don't make it more difficult for working people to achieve the American dream of owning their own home. And that is why I am a little bit skeptical of changes to the Tax Code that would have the effect of putting that goal for them out of reach.

Just last month we did a housing event in one of the cities in my district, Pico Rivera, that was aimed at doing two things: Helping current homeowners keep their homes and educating potential first-time home buyers about the process of purchasing a home. And at that event for the first time in a long time we started to hear many positive signs about the local housing market improving and gaining strength.

And that was in marked contrast to the past several years when housing or the fear people had about losing their housing was overwhelmingly the number one issue that constituents were calling into my office and asking for help on.

So targeted provisions in our Tax Code, things like excluding the discharge of principal residence indebtedness from income, have helped turn that tide and kind of gotten the housing market back on the right track. In the turning of that tide I think come good paying jobs in both the construction and the housing industries, good paying jobs that help a new group of people in turn achieve their dream of home ownership.

Ms. Sanchez. Some of the overarching themes in the tax reform discussions that we have had are a little bit concerning to me. My biggest concern is that we not pay for tax reform on the backs of working people. Broadening the base and lowering the rate sounds great, it is a great bumper sticker, it is a great slogan, but that can't come at the cost of working class families.

We have heard from some of the panelists today that targeted housing provisions in our code create economic and market distortion, but many tax expenditures are essential to maintaining parts of our market and economy that help create good paying jobs. Many provisions discussed today help serve that very purpose.

So my first question, Ms. Gravelle, could you elaborate a little bit further on just how hard it will be to achieve the majority's tax reform principle, this broadening the base and lowering the rate, especially with respect to those tax incentives that are net positive with respect to job creation?

Ms. Gravelle. In our study, we took the top 20 tax expenditures, which account for 90 percent of the revenue, and we went through them one by one and said, okay, what are these, what are the merits of these, what are the objectives. And, again, a large fraction of those provisions relate to savings. Or just take something like capital gains. Even if you wanted to tax capital gains at ordinary rates, the scoring methodology would not give you revenue from capital gains.

Some of them are very difficult technically. For example, even though a lot of people talk about taxing employee health benefits, it is actually very difficult to impute the value of that to people in many different circumstances. And that came up during health reform. That is very hard to do, and that is why they ended up with a very limited, sort of the Cadillac tax provision.

Defined benefit pension plans. How do you impute income? Do we really want to tax Medicare recipients on the value of their Medicare benefits? What do we want to do? Do we want to leave the earned income credit in place? Do we want to disallow the taxation for catastrophic medical expenses?

We went through each of those one by one, and when we finished examining them, we just concluded that, for a whole variety of reasons, the objectives, the technicalities, the merits in general, that it was just very hard to have a large base broadening. If you eliminated every tax expenditure, we found that you could get the top rate down to about 23 percent, but once you start cutting those out, it gets harder and harder to do that. And that CRS report is out there, you know, it is available for people to look at and show how careful we were to go through each provision one by one.

Ms. Sanchez. And so each of those provisions that you just discussed, I am assuming probably affect middle-income and low-income people more than any other group.

Ms. Gravelle. We look at some that affect middle-income and some high-income, but many of these provisions, like employee health insurance, really are a middle-income --

Chairman Camp. All right. Time has expired.

Mr. Kelly is recognized.

All right. Mr. Griffin is recognized.

Mr. Griffin. Thank you, Mr. Chairman. Thank you all for being here today. I appreciate it. This has been a very helpful hearing.

And I want to echo some of the comments I have heard from some of my colleagues, in that we are taking a comprehensive look at the Tax Code because most folks agree that it is a mess and it is counterproductive. And if we are going to encourage economic growth and job creation, the Tax Code right now, in my view, is a barrier to that. That is why we are doing this. We are not doing it for the sake of it because we don't have anything else to do. We are doing it because it is helpful to this country to fix this Tax Code.

You know, on the way back from Afghanistan about a year and a half ago, while the pilots were resting, we stopped in Estonia, and we met with the former prime minister, who is now the defense minister, and he was telling us about his tax system. They said they pay in Estonia, they pay their income tax online in about 15 minutes. The average Estonian takes 15 minutes to pay their tax. Now, I am not promoting their particular way of taxation, but the point is that we can do much, much better. Whatever that looks like, we can do much, much better. And, you know, we certainly can do as well as the beautiful country of Estonia.

And I would say that the best thing for working families, working families in Arkansas that I represent, or wherever, the best thing for them is a growing economy and remaining competitive internationally. So that is why we are doing this.

And to address the mortgage interest deduction, I would like to say that I think it has been well said by many others here today that you can talk about, you know, the high income folks that take advantage of it or whatever, but at its core, this benefits middle-class, working Americans. A lot of people count on this provision, and I think the statistics show, whether you are looking at the percentage that are under $200,000 in income or $100,000.

But one thing that I wanted to explore a little bit, Mr. Calabria, if you could talk a little bit about your comment earlier where you said, I think it was you, you said that the mortgage interest deduction incents more higher debt, not equity, not ownership. And if you could talk a little bit about that and your proposal to address that.

Mr. Calabria. Sure. And let me start off by saying, you know, my proposal, I want to try to keep those families held harmless after taxes, not seeing their tax increase, but what we were doing is allowing them to prioritize, because, you know, I think housing is important, but I think education is important, I think

healthcare, I think food is important, but I don't think the direction to go is here in Washington we decide what people should consume, you know, where they put their marginal dollar. I think they are smart enough to figure that out for themselves, quite frankly.

So the thing is to reduce these tax connections to various consumption items and let people make those decisions for themselves while keep their taxes low. So my point being is I think we can tie that in that way that you are leaving these families the same after tax, you know, in very much the same way.

Mr. Griffin. You would acknowledge, would you not, that some of the proposals for a credit instead of a deduction, if you left the tax rate the same, would really hit a lot of the folks that take advantage of the deduction, if you left the marginal rates the same.

Mr. Calabria. It would. And so I do think --

Mr. Griffin. Because it would be far less than the deduction.

Mr. Calabria. So one of the objectives should be to try to lower marginal rates, because ultimately at the end of the day what we should be trying to achieve is growing household income and reducing the taxation of income, because income is what makes everything else in the world possible. So, you know, you could have all the mortgage interest deduction you want in the world, if the family doesn't have the income to afford the house to begin with, it doesn't matter.

So, again, growing income should be our primary objective here, in my opinion. And I think a flat low rate like they have in Estonia should actually be something that we try to achieve and try to reduce some of the complexity in the tax system while reducing the penalty to work.

Mr. Griffin. So I think, is it fair to say that a lot of the reforms that you propose would depend upon that lower tax rate, it would not be to the code as it currently is constituted?

Chairman Camp. And if you could answer briefly.

Mr. Calabria. Yes or no. I think it is important to reduce leverage even if we don't reduce overall tax rates, but I do think reducing tax rates should be part of that.

All right.

Mr. Griffin. Thank you, Mr. Chairman.

Chairman Camp. Mr. Renacci is recognized.

Mr. Renacci. Thank you, Mr. Chairman. And I want to thank all the panel for being here today also.

You know, it is interesting. Of course, a lot of the questions have already been answered, but in my past life, before I got here, I was a CPA, and I remember sitting down with many people who walked in, some people just with a W-2, and said, help me do my tax return. So, again, I am going to repeat, as many of my colleagues have said, we need to make sure we have a simpler tax return so people can just file their tax return and not be concerned when they just have that W-2.

But it is interesting, when it comes to home ownership, I had many that would come in and say, I am buying a home, but they never really asked what the interest deduction would do for them, either. And the question I always said to them was, well, you know, you are going to buy a home, have you looked at whether, you know, the economic value of buying that home is worth it, if the interest deduction is even going to help you? Are you better off to rent? And in today's day and age when housing it not, you know,

the old, I am going to buy a home and I will pay my mortgage down and housing prices are going to go up, I am going to have a nest egg at the end, I am not sure we are there today, when housing prices are not moving up as fast as they used to and at the same time, you know, the debt you are paying in some cases, because we already have the standard deduction of $6,500, it is not even a deduction for you. So it is interesting how complicated the Tax Code could be. But what is more interesting is that many people, as I said, don't really even care about the interest.

My dad bought his first house, God love him, 30-plus years ago for $11,000 and probably never cared one bit about the interest deduction, and sold it 30 years later for $6,000. So it wasn't an economic advantage to him to have that house. But my friend's daughter is acquiring a house. She just got out of college. And she is not looking at -- you know, I said to him, has she looked at the interest deduction? And my friend said, no, she doesn't care, she just wants to own a home.

So it gets back to something you said, Mr. Calabria, which is interesting to me. You said that, and you didn't finish, but the average after-tax return is less than 1 percent on home ownership. Could you explain that, go into more detail?

Mr. Calabria. Sure. Bob Shiller, a finance professor at Yale, has put together a price series from 1890 to today, you know, when you put inflation in there, and so, I mean, his calculation is after inflation on an annual basis, housing returns about 1 percent for the value of the house. Now, of course, you know, the retort is that, well, it can be massively leveraged and therefore your return is on that leverage. But as we have learned repeatedly, this was not the first financial crisis we had, and sadly, I don't think it is going to be our last, that this massive leverage in the system repeatedly comes back and haunts you. Leverage maximizes gains, but it also maximizes losses.

So my point here throughout the testimony is not -- I think home ownership is a great thing, I think it is a good thing. I think households being massively leveraged is not a good thing and I don't think we need -- I think we can achieve high home ownership without massive leverage on the part of households.

Mr. Renacci. Mr. Fleming?

Ms. Gravelle. Could I just make a comment about --

Mr. Fleming. I will just say quickly, the idea of -- and I think this is something that many forgot during the most recent crisis was you gain utility of shelter primarily from housing, not as a financial --

Ms. Gravelle. Absolutely. That is what I was going to say. That is the return.

Mr. Fleming. -- not a financial investment. And to your point, many people make the decision about their tenure choice of how to achieve that shelter not by looking at the financial model of user costs. I mean, you ask them, well, what did you use look at the user costs of renting versus buying, they give you a blank stare, right? So it is about your position with, are you getting married, are you having children, you know, all these household and demographic types of things that drive that decision, and in some cases on the margin, maybe the financial decision, maybe the financial decision of, oh, I can get that mortgage interest deduction and that helps me make on the margin that choice of becoming a first-time home buyer.

But honestly, first-time home buyers, their bigger constraint is the downpayment; not making the payment when they are in there, but getting access to a downpayment.

Mr. Renacci. If there was an opportunity to build savings before you went into home ownership, and then use that savings to buy that home, that is something that we probably should look at, too.

Mr. Fleming. Right. That is the challenge. And you see the first-time home buyer tax credit most recently clearly drew in a lot of demand. People were able to overcome that building of downpayment problem to get at buying a home.

Mr. Renacci. Mr. Calabria, there was one other comment you made that I just want. You said something about the renter, no tax for the -- I am trying to figure that out.

Mr. Calabria. Yeah. I know imputed rent is not necessarily a straightforward concept. So if you think about it, you know, you rent a unit, you are paying rent, the landlord is paying tax on that rent. And so the economists tend to think of, well, if you bought a unit, you are renting it from yourself, but you are not paying tax, and so that makes the choice between you becoming a renter less attractive if you were an owner. Because remember, all the mortgage interest, all the property tax stuff, that is expensible for the landlord, too, so there is a quality there. And so the real impact, again, is, as I would suggest, is if we stop taxing rent, we will level the playing field between renters and homeowners.

Mr. Renacci. All right.

Chairman Camp. Thank you.

Mr. Renacci. Thank you.

Chairman Camp. We have two people who are going to come question and then I am going to the second panel. So we will go with Mr. Blumenauer and then to Mr. Reed, and then we will go to the second panel.

Mr. Blumenauer. Thank you, Mr. Chairman. And I appreciate the way the two panels have been structured to, I think, walk us through the big picture. The written testimony actually is one of those rare times where it is actually better in both panels, and we really appreciate that.

I would like to just take a slight, it is not a digression, but take one aspect of this. I have spent a lot of time working with a number of the organizations that will be testifying dealing with trying to have a functional flood insurance program that adds stability to the market. We have also spent a lot of time working on disaster relief, prevention, recovery, which, because of what has happened with climate instability, these costs are skyrocketing for the Federal Government.

I am interested in any observations that you might have, and I would look for some of the other panelists later, to the extent to which we are using the tax system to subsidize people living in places where it has repeatedly shown that nature may not want them. We have legislation that prohibits Federal investment dating back to the Reagan era, the Coastal Barriers Protection Act, where we don't put infrastructure there, yet we allow mortgage interest deductions for second homes in places that have been wiped out and we are spending money recovering.

Do you have any thoughts about whether, regardless of what we do with mortgage interest reduction and tax reform, that we might do a deeper dive to limit the exposure to the taxpayer paying twice, once to subsidize people living in a place that they probably shouldn't be, and then repeatedly going back in, cleaning up, paying disaster payment, and then allow continued subsidization of that development? Any thoughts?

Mr. Calabria. I will just mention, I will preface with, while staff on Senate Banking, I worked on all of our flood insurance issues and I actually headed our Katrina response for the committee as well. And so I would certainly agree that we subsidize a number of policies that, in my opinion, do tremendous harm to the environment. For instance, I believe Fish and Wildlife Services have concluded that the flood insurance program has adversely impacted salmon runs, for instance. So there is a variety of negative impacts for subsidizing development in very sensitive areas, and I certainly think we should reconsider those subsidies.

And, of course, it is also important to keep in mind, you know, while climate has changed, to me it looks like the evidence suggests the biggest problem is less that the disasters have gotten worse, but that we have moved to the disasters in a very big way. And, of course, I do think our subsidies have been a very big part of that.

Ms. Gravelle. If you are thinking about vacation homes on the coast and things like that, you know, I mean, obviously one thing to consider would be to disallow some of these deductions for second homes. But aside from that, I mean, there is still, for wealthy people who are doing this, for high incomes, there is still the exclusion of imputed rent. Even if you don't have a mortgage interest deduction, if you don't have a mortgage, you still are not implicitly paying tax on that. And that is a trickier thing to try to attack.

I mean, the other thing is, again, I just know a little bit about the whole flood issue, but, I mean, I think most economists would say the fundamental problem here is not a proper market pricing of flood insurance. So if you have something that floods and you know you can expect it all the time, then the insurance should reflect the price of that, and then you leave, you know, the benefits for extraordinary, unusual calamities.

Mr. Swagel. Right. I was just going to echo that. The flood insurance program has the unintended effect that you mentioned. And we see that in the State of Florida, which has the most driven out private insurance out of the home sector.

Mr. Blumenauer. Mr. Chairman, just one subset, and I will yield back my time in a moment. But it just seems to me that one of the things that ought to be examined, if you are going to be subsidizing second homes, for instance, with a mortgage interest deduction, at a minimum, the reduction in people that are in extreme -- and it is not just flood. I mean, we have places in the flame zone. One in four homes in the flame zone is a second or third or fourth home, where we are paying huge sums of money in the west to try and protect them and then we go in afterwards.

And I would think that this might be something that is worth looking at that wouldn't be wildly disruptive to a real estate market. It might actually help stabilize it, but it would prevent the taxpayers from paying two or three times in areas where the costs are going up exponentially.

Chairman Camp. All right.

Mr. Blumenauer. Thank you, Mr. Chairman.

Chairman Camp. Thank you.

And I think we are done with our questions. So I want to thank this panel of witnesses for their testimony. The committee greatly appreciates your testimony and your perspectives. And I also want to ask that if there are any questions that you want to submit writings with, we can add those to the formal hearing record. So, again, thank you for being here.

Chairman Camp. And I would like to call our next panel of witnesses forward, please.

Mr. Levin. Mr. Chairman?

Chairman Camp. And also I would like to recognize Mr. Levin.

Mr. Levin. I would also like to thank the panel.

And as we are shifting here, there is a gentleman behind me, Mike Hauswirth, who has been a valuable member of our staff since February of 2011, and before that, he was on Joint Tax. Mike is going to be

leaving us to undertake new adventures. And I would like all of us to join in thanking Mike for all of your service both on our tax staff, but also Joint Tax.

Chairman Camp. Thank you. And if our second panel could come forward, please. Appreciate your patience this morning. I know many of you were in the room during all of the first panel, so.

Now I would like to welcome our second panel, I know all of whom bring important perspectives on the residential real estate industry with them.

And, again, thank you for your patience. I saw you sitting in the room during all the morning testimony.

First I would like to welcome Gary Thomas, president of the National Association of Realtors. Mr. Thomas has worked in realty for over 35 years.

Second we will hear from Robert Dietz, assistant vice president for tax and policy issues at the National Association of Home Builders. Mr. Dietz formerly served as a revenue-estimating economist for housing issues at the Joint Committee on Taxation.

And third we will hear from Thomas Moran, chairman of Moran & Company in Chicago, Illinois, also appearing on behalf of the National Multi Housing Council and the National Apartment Association. Mr. Moran has specialized in private housing development for over 4 decades.

And finally we will hear from Mr. Robert Moss, a senior vice president at Boston Capital in Boston, Massachusetts, also appearing on behalf of the Housing Advisory Group in Boston. Mr. Moss serves on the boards of at least five housing associations.

Again, thank you all for being with us today. The committee has received each of your written statements and they are part of the formal hearing record. Each of you will be recognized for 5 minutes for oral remarks.

And, Mr. Thomas, we will begin with you. Welcome. And you are recognized for 5 minutes.

Mr. Thomas. Thank you. Chairman Camp, Ranking Member Levin, and members of the committee, thank you for this opportunity to testify on behalf of the 1 million members of the National Association of Realtors, who practice in all areas of residential and commercial real estate.

My name is Gary Thomas and I serve as the 2013 president of the National Association of Realtors. And I, like most Americans, agree that a major goal of tax reform should be simplification. But simplification does not necessarily equal elimination. The code currently contains simple, easy-to-understand housing-related tax provisions, enjoyed by millions of Americans, that have helped facilitate home ownership, build wealth, and provide stability to families and communities.

In case there is any doubt, Realtors support maintaining current law for residential real estate tax provisions. Specifically, we urge you to maintain the current deduction for home mortgage interest, the deduction for real property taxes paid, and the capital gains exclusion for proceeds from the sale of a principal residence.

My written testimony details these and other provisions, but I would like to focus on the mortgage interest deduction. Let me first clarify who benefits from the MID. In 2010, 37 million tax filers claimed the mortgage interest deduction. Of those filers, 63 percent earned less than $100,000 and 91 percent earned less than $200,000. Roughly half of those claiming the MID were under the age of 45. Many of these filers also claimed dependents or credits for children. Moreover, homeowners pay between 80 and 90 percent of all Federal income tax.

If you want to know the majority beneficiary of the MID, the answer is not the rich; rather, it is young middle-class families with children who already carry more than their fair share of the tax burden. If Congress were to eliminate the mortgage interest deduction, it could mean an average tax increase of over $2,500 per family.

Realtors realize that most believe Congress would not attempt to completely eliminate the MID. We hope they are right. However, there have been several proposals to change the deduction or eliminate it for certain taxpayers. Let me briefly respond to three of the most frequently mentioned proposals.

One proposal would eliminate the deduction for second homes. While critics portray second homeowners as millionaires with mansions by the ocean, this ignores the facts. NAR research shows that the median income of a second-home buyer last year was $92,000 and the home they purchased cost $150,000. NAR research further shows that second-home sales make up 10 percent of all home sales each year. And all but one State has at least one county where 10 percent or more of their real estate market is composed of second homes. The economic impact second homes have on these communities should not be ignored, either.

Another proposal is to cut the amount of eligible mortgage debt that can be deducted in half. While $500,000 might buy the most expensive house in some of your districts, in my own market, in Southern California, it might buy a starter home. Homeowners in high cost markets already pay a higher percentage of their income for housing than those in less expensive parts of the country. This proposal would make home ownership even more expensive in markets where affordability is already a problem.

Finally, we have heard proposals to change the deduction to a tax credit. While this discussion of credits versus deductions may make for great debate, the bottom line for current homeowners is this: If you are in a tax bracket higher than the credit amount, a credit will cause your taxes to go up and the value of your home to go down.

Housing has helped lead us out of four of the last six recessions, and it appears to be doing so again. Americans are regaining confidence in real estate. Demand is increasing, and so are home prices. The greatest hurdle to full recovery in housing is uncertainty here in Washington.

The mortgage interest deduction, along with other tax provisions, makes sustainable home ownership more affordable for millions of middle-class families who are the backbone of America. Congress must remember this as it pursues tax reform, and first, do no harm. I look forward to answering your questions. Thank you very much.

Chairman Camp. Well, thank you, Mr. Thomas.

Chairman Camp. Mr. Dietz, you are recognized for 5 minutes.

Mr. Dietz. Thank you for the opportunity to testify today. My name is Robert Dietz, and I am an economist with the National Association of Home Builders. NAHB represents all sectors of residential real estate development, single family, multifamily, remodeling, and businesses connected with supplying and financing those activities.

Homebuilding is an industry dominated by small businesses, so the idea of a simpler, less complex Tax Code has great appeal. At the same time, our industry remembers painful lessons from the 1986 Tax Reform Act when the commercial and multifamily sectors experienced a downturn due to unintended consequences. For this reason, we urge you to be cautious and thoughtful when it comes to housing and tax reform.

We have seen over the last 5 years the influence housing can have. When housing fares well, it is positive for the economy. 2012 was a year of expansion off of great recession lows, but recent data, such as NAHB's measure of builder confidence, has suggested the recovery will have starts and stops. In particular, the share for some home buyers remains below historic norms.

Given the state of the industry, I would like to highlight a few key tax issues. NAHB strongly supports the Low Income Housing Tax Credit. Created in the 1986 reform effort, it is the most effective tool for the creation of affordable rental housing. Utilizing a public-private partnership to attract investment, the tax credit has created over 2 million affordable rental units. The needs for such housing remain significant and we strongly urge the committee to protect this program.

Also, the completed contract rules in Section 460(e) are essential to homebuilders and offer a case in point about tax reform. Absent this fix to changes made in 1986, many builders would need to pay taxes on homes prior to sale.

However, when it comes to housing, the spotlight typically falls on the mortgage interest deduction, or MID. A few thoughts. First, we frequently hear few homeowners benefit from the MID because itemization is required. In fact, most homeowners will claim it. In 2009, for example, 35 million taxpayers claimed the MID out of 50 million homeowners with a mortgage. This means, of homeowners with a mortgage, 70 percent claimed the MID in that year. And typically more than 80 percent of mortgage interest paid by homeowners is reported as a deduction. Over the course of a homeowner's time of ownership, the majority will claim the MID for years at a time.

It is also claimed that the MID encourages the purchase of a larger home. These claims ignore the role of family size. The data show that larger families see a larger benefit, which is intuitive with the notion that families with children require larger homes. Also, the cost of housing varies greatly across the Nation, so what may appear to be a large deduction may reflect a modest home.

Moreover, the MID and the real estate tax deductions are two of the few elements in the Tax Code that account for differences in cost of living. Indeed, the real estate tax deduction is an important reminder that homeowners pay over $300 billion in property taxes each year. This fact is often ignored in Federal tax debates, because these taxes are collected by State and local governments.

There is also a connection between the age of a homeowner and the resulting benefit of the MID. As a share of household income, the largest deductions are for those 35 and younger. This makes sense, because these are the homeowners that are paying more interest in the early years of a mortgage.

Given this demographic connection, NAHB believes that any policy change that makes it harder to buy a home or delays the purchase of a home will have a significant impact on the wealth accumulation and makeup of the middle class.

Now, a few thoughts on the MID rule for second homes. While many think of expensive beach property, such homes are often owned free and clear or rented, which excludes them from the MID. In practice, the second home deduction is important for many who do not think of themselves as owning two homes. For example, the second home deduction facilitates moving when owning two homes during the tax year. The second home MID rules also permit existing homeowners to claim interest on a construction loan for a future home being built.

Repeal of the second home MID rules would affect large sections of the country in nearly every State. There would be negative economic consequences in terms of lost home sales, home construction, and lost tax revenues.

How housing is treated in any future tax reform will shape the economy going forward. This is particularly important now. Housing provides the momentum behind an economic recovery, because homebuilding and

associated businesses employ such a wide range of workers. Housing could be a key engine of job growth that this country needs.

As the committee moves forward on tax reform, NAHB wants to be a constructive partner. Thank you, and I look forward to your questions.

Chairman Camp. Thank you very much.

[The statement of Mr. Dietz follows:]

Chairman Camp. Mr. Moran, you are recognized for 5 minutes.

Mr. Moran. Thank you. Chairman Camp, Ranking Member Levin, the National Multi-Family Housing Council and the National Apartment Association would like to thank you for this opportunity to testify on the multifamily industry's priorities for tax reform.

My name is Tom Moran. I am the chairman of Moran & Company from Chicago. I have been in the multifamily business for 40 years. My firm operates nationwide. We develop, own, manage, and sell apartments. I happen to also be a CPA and a lawyer, and I am acutely aware of the critical tax issues confronting our apartment industry.

The apartment industry builds vibrant communities by offering housing choices. Currently there are 19.3 million apartment units with 35 million residents, which contribute $1.1 trillion annually to the economy and helps support nearly 26 million jobs. The demands for apartments continues to grow thanks to the changing demographic. Harvard University research shows that half of all the new households formed this decade could be renters, which is up to 7 million. Home ownership has declined from 69.2 percent to 65.5 percent in December of 2012. A 1 percent change in home ownership represents approximately 1.1 million new apartment households.

The demand for apartments is surging, but supply is not keeping up. We need to build at least an estimated 300,000 to 400,000 units per year, yet last year we delivered only 158,000 units.

Like many small businesses, the apartment industry has a considerable stake in tax reform. We ask that tax reform take special care not to harm the thousands of existing real estate businesses which provide housing for 35 million residents.

First, we believe that tax reform must be comprehensive and encompass both individual and corporate taxes, but done at the same time.

Secondly, more than 75 percent of all real estate businesses are formed as partnerships or LLCs, which are flow-through entities where the owners and individuals are taxed individually each year at ordinary income tax rates except in the year of sale. These entities set forth the risk and obligations of the operating partner, the financial obligations of the investing partners. These documents are extensively negotiated and are an integral part of the real estate industry as well as other small businesses. Tax reform should not affect the way that business is transacted in the future, and the current regulations pertaining to capital debt and bases should not be changed.

Third, the carried interest proposal as drafted should not apply to real estate since real estate developers and owners take substantial risks in developing and rehabbing real estate. They take development risks in buying the land, zoning the property, and guaranteeing the construction costs. They take financial risks in securing a construction loan with a 100 percent construction guarantee and a 25 percent payment guarantee. They have investor risk. If you do not find an investor, you can lose your entire investment. If you secure

an investor, he will receive a negotiated return and recoup his investment prior to any return on the carried interest.

The current interest proposals do not have a current effective date. It applies to all buildings and partnerships retroactively. Thus, if you have owned a building for 30 years and have a substantial profit, primarily due to cost inflation, the carried interest proposal would be retroactively recharacterizing the capital gain to ordinary income. This retroactive recharacterization of ordinary income is most unfair and would cause transactional havoc in partnerships, where the general partners would be taxed at 40 percent and the limited partners at 20 percent. Real estate developers take the risk, create the jobs, and should be taxed at lower capital gain rates, the same as founder shares and other capital assets.

Tax reform must retain 100 percent deduction for business interest. Real estate buildings are expensive and debt is a major portion of the capital stack. Thus, interest is an ordinary and necessary expense of doing business.

Fifth, we must protect and make permanent the Low Income Housing Tax Credit, since Harvard is currently estimating that we have a shortage of at least 3 million affordable units.

Sixth, tax reform should respect and not change the estate tax legislation enacted in January of this year.

Finally, we strongly support extending and modifying the 179 energy provisions by enabling more properties to qualify for the incentive.

On behalf of the apartment industry and our 35 million residents, we thank you for the opportunity to testify today and we look forward to answering any questions you may have.

Chairman Camp. Well, thank you, Mr. Moran.

Chairman Camp. Mr. Moss, you are recognized for 5 minutes.

Mr. Moss. Chairman Camp, Ranking Member Levin, members of the committee, thank you for inviting me to appear today to discuss the Low Income Housing Tax Credit. My name is Bob Moss and I am the senior vice president for affordable housing at Boston Capital, a real estate finance and investment firm that raises capital for investment in affordable rental housing. I am here today also on behalf of a broad coalition of over 450 State, national and local affordable housing organizations, the Affordable Rental Housing Action Campaign.

The housing credit is a bipartisan product of tax reform and a permanent feature of the Tax Code. Today the housing credit is generally recognized as the most successful housing production and preservation program. The housing credit is actually two programs. First, it is a capped tax credit program where States receive an annual amount of tax credits based on their population, and second, it is a bond credit program which combines fewer tax credits with tax-exempt multifamily bonds.

One of the essential elements of the housing credit program is the role that State housing finance agencies play in administering the program. States annually prepare and publish qualified allocation plans that lay out State housing needs and priorities after soliciting public input through a transparent and open process.

Our Nation is experiencing a crisis in affordable housing. This is not a new crisis, but it has grown worse in recent years. One quarter of all renters pay half or more of their income in rent. Nearly two-thirds of extremely low household renters pay at least half of their income in rent. And the reason low-income households face such high rent burdens is the shortage of affordable housing. On average, State housing finance agencies receive applications annually for more than twice as much housing credit as they have available.

Federal priorities have a major impact in how States run their housing credit program. And while the statute permits targeting to households with incomes up to 60 percent of area median income, according to a recent study by the Furman Center at New York University, the program in fact reaches much further down the income scale, where the need is greatest.

Since the housing credit program was established in 1986, it has made possible the development of more than 2.5 million rental homes. Each year about 100,000 new rental homes are developed or preserved under the program. This program also accounts for 95,000 jobs annually. This produces almost $8 billion of local income through wages for workers and profits for small businesses, and about $1 billion in taxes and other revenues for local governments.

The housing credit serves the full spectrum of housing need, including housing for families, seniors, people with special needs, veterans, and the homeless, in all geographic areas. Many local governments have used the housing credit over the years to spark neighborhood revitalization and help restore blighted areas.

There are several key elements of the program that have led to its success. First, State housing finance agencies administer the program. This ensures that properties are developed according to local housing needs. Second, the private sector provides market discipline. And third, the housing credit program is well designed within the Internal Revenue Code. Tax credits are not earned until the development is completed, it is in operation and housing qualified residents. This means that real estate construction and other risks are borne by the private sector, not the Federal Government.

This threat of recapture imposes a powerful discipline on the program that ensures the properties are properly underwritten at the outset and diligently managed throughout the compliance period. Housing would not be built or preserved but for the capital contributed because of the housing credit. It is a safety net program that requires continued Federal support.

This committee did great work in 1986 when it created the housing credit. You designed a critically important program to maximize its efficiency, ensure investment occurs where it is needed the most, and harness private sector business discipline to achieve an important public policy objective.

I thank you for the opportunity to address you today. Thank you.

Chairman Camp. Well, thank you. Thank you all very much.

Chairman Camp. Mr. Thomas, this is directed at you. What is the biggest hurdle for people when they are buying a home? Is it having enough for the downpayment, especially now that we moved away from the zero-down loans that really helped fuel the subprime mortgage crisis? Is it interest rates? Is it some other factor, in your opinion?

Mr. Thomas. Well, it depends on the time of which you are speaking. If you are speaking of today, it is probably downpayment, because leaders are requiring more downpayment on loans other than FHA or VA, and so you have a bigger hurdle with the downpayment.

Chairman Camp. All right.

Mr. Dietz, any comment on that? Is that your thought as well?

Mr. Dietz. Downpayment is a challenge. Labor market stability, wage growth, as the previous panel mentioned. Appraisals is a serious challenge. You can qualify for a mortgage, but if the appraisal comes in and says the home is inconsistent with where the appraisal is, then the sale falls through. And that is a problem for building as well as for home buyers.

Chairman Camp. All right. Just to sort of educate me and the committee about the actual real estate market, what percentage of the market is first-time home buyers?

Mr. Thomas. It is generally about a third. At the present time it may not be quite that high because there has been such an influx of investor buyers, and so it has forced a lot of the first-time home buyers out of the market, because they are having to compete for homes. It is very difficult. In my own area, we have a 1-month supply of homes, and so the first-time home buyer is really at a disadvantage.

Chairman Camp. Sure. And what percentage would be so-called second homes? And is that obviously in regions of the country --

Mr. Thomas. Sure.

Chairman Camp. -- you know, second homes probably make up a larger portion of that.

Mr. Thomas. Like in yours.

Chairman Camp. Yes. Especially in the northern part.

Mr. Thomas. Correct.

Chairman Camp. Just in general, though, I mean.

Mr. Thomas. Typically it is about 10 percent.

Chairman Camp. All right. What percentage of that second-home market is, as I think some of you said, and I think you said in your testimony, are people that are, say, maybe moving and they have two homes or they are getting ready for retirement and they buy a second home 5 years before they are going to retire? What percentage of that second-home market is that sort of --

Mr. Thomas. Unfortunately, we don't have statistics based on exactly what that is, but we know that as people are moving across the country or even within a given area, that this is a factor. But there are a lot of people that do buy second homes in anticipation of retiring into them, so that is big percentage.

Chairman Camp. That is what I was wondering about that.

Mr. Thomas. Yeah.

Chairman Camp. And in terms of home values, how do home values break down nationwide? I mean, what are between, say, zero and 100, 100 to 200, 200 to 300? Do you have that, or if not, can you get that to me?

Mr. Thomas. I can get it to you.

Chairman Camp. All right.

I wondered, Mr. Moss, if you just wanted to comment on the previous panel. There was a lot of testimony about the incentives in the Low Income Housing Tax Credit and maybe it should go more to the individual as opposed to the way it is structured now. I don't know if you had a chance to think about that and if you had any comment on that.

Mr. Moss. Well, in looking at --

Chairman Camp. You may want to hit your microphone.

Mr. Moss. Sorry.

If you look at most of the tax credit properties right now, in terms of achieving deeper targeting, they do. If you look at the Furman Center study and the type of targeting that is going on across the country, most tax credit properties are not just set at 60 percent of area median income. They serve levels at 40, at 30 percent of median income. So there is some targeting going on there that would not be achievable under any other program. And especially with the private capital coming in to leverage these properties, it is not achievable under any other type of spending program.

Chairman Camp. In terms of the supply of low-income housing, is it in a shortage all over the country or are there regions that that is less the case?

Mr. Moss. The universe of affordable housing, when you start to talk about all the population types, is dramatic. As I mentioned in my testimony, we are now doing a lot of housing for veterans, returning veterans. There is a shortage. There is a great shortage of affordable housing in the United States in all areas. The nice and the great part about the credit is it is flexible and it can serve to provide housing for a lot of different housing types.

Chairman Camp. I guess I didn't ask that the right way. Are there areas of the country where the need is greater than others?

Mr. Moss. Certainly higher population areas where there is more employment, there is probably more of a need. But also you have to remember that the bond program serves a useful tool in those areas as well, not just the capped credit. And you are going to see that there is, if you look at the credits across the country with the per capita allocation formula, there is very little that spills over into the national pool that is unused, if any at all.

Chairman Camp. Mr. Thomas, what is your view on the 28 percent cap in the President's budget?

Mr. Thomas. We don't support that. We think that that is going to raise the rate for many people as to what they actually pay. So it has generally a detrimental effect.

Chairman Camp. All right.

Mr. Dietz, do the Home Builders have a position on that?

Mr. Dietz. We are opposed to the 28 percent cap, too. And just to add an item to it, you know, something you don't see discussed a lot is the proposal has grown over time it has appeared in the President's budget proposals year by year. It now includes, like, the Section 199 deduction, which would affect a lot of pass-through businesses, other exclusions. So that is an issue.

Chairman Camp. All right. Thank you.

Mr. Levin is recognized.

Mr. Levin. Welcome. You know, I think it is so important for us to dig out the facts, and I think what you have testified to helps us.

I am not in favor of the status quo. I am also not in favor of changes that don't take into account the realities. For example, second homes, Mr. Chairman, I think you and I might agree, I-75 people come up your way on Fridays, and I try to move up I-75 in the suburban area. And when you take into account who

is traveling up I-75 from Detroit and suburban Detroit up north, my guess is I think a lot of them are going to small second homes. And I think we simply need to be careful about our proposals.

I also think, though, that we need to make sure that we are not opposed to everything. The 28 percent proposal of the President relates to some of the facts that came out earlier, and that is, who is benefiting, who is taking advantage of accessing the deduction. And in terms of numbers, the largest numbers by far are people under $200,000. It is also true that proportionately a very substantial amount goes to people in higher income brackets. And so I think we just need to take a hard look at that.

Also, I think we would welcome, if you don't have time through my questions, to take a look at the testimony of others before you, because, for example -- by the way, Mr. Moran, I am not going to ask you questions about carried interest, because it doesn't really relate directly to this hearing. Carried interest issue covers more than real estate. So let's have that discussion some other time. Okay? We have been working hard on it and want your views. So many people take risk of all kinds, and they pay ordinary income tax on the benefits. Sometimes they don't receive any from the risky economic effort.

But I think it would be useful if you would take a look at the testimony that came before. And it was really striking, Mr. Toder, if I pronounced his name correctly, on page 7 has this paragraph: "Some empirical research and observations confirmed this lack of a relationship between the MID and home ownership rights."

I think you need to look at testimony like this and give us further indications as to the relationship. For example, I think maybe it was you, Mr. Renacci, I am not sure, said that when people buy a house they don't look at what their mortgage payment will be in terms of taxation. I find that somewhat hard to understand. I would think most people who are going to itemize if they buy a house would take note of what their monthly payment really would be on their mortgage. I think all of us do that all the time who have mortgages.

So I think it would be useful for you to take a look at the testimony that came earlier -- and thank you for your patience -- and give us your views on that.

And the same on low-income housing, because while the testimony has been basically positive, I am afraid that there may be suggestions that we would significantly change that. And I am not in favor of the status quo, but I think going after these important policies, it is not a loophole, the Low Income Housing Tax Credit, it is a policy adopted by this country on a bipartisan basis, and I think we better be careful before we significantly tamper with it.

My time is up. But give us your further ideas. Go back over the testimony that we heard earlier and give us any comments, if you would.

Chairman Camp. All right. Thank you.

Mr. Johnson is recognized.

Mr. Johnson. Thank you, Mr. Chairman.

I would like to start with Mr. Thomas and Mr. Dietz, if you don't mind. On July the 11th, the Joint Committee on Taxation issued a report on the tax treatment of household debt, and in that report there is a chart which shows a surge in home mortgage debt from around 2002 through 2007. I asked them about that at a hearing we had back in July a couple years ago, and I wanted to share with you what Joint Tax had to say in a follow-up letter addressed to me and get your reaction.

According to Joint Tax, quote, "Given that the home mortgage interest deduction has become less valuable over time, the deduction does not appear to explain the increase in home mortgage debt from 2002 to 2007." I would like to know your thoughts about this. Mr. Thomas, go first.

Mr. Thomas. Well, I am not sure there is a correlation there. I think that the basics of having the mortgage interest deduction allows people to take that deduction and it allows for people to buy a home, especially a first-time home.

You know, the thing that most people don't understand is that you can't take a snapshot at any one given time and get a clean picture of the people that are taking advantage of the mortgage interest deduction. It is really more like a movie, because the majority that take advantage of the deduction is done when they are younger and they are building their families and they are starting out, so that a greater portion of their income does go towards the debt of a home. And the mortgage interest deduction is very important to them, because it allows them to buy the size home they need in the community they are in. And that is all factored in when they apply for a loan, because the lender will look at what the mortgage deduction is going to do for them, and that allows them to purchase as much as they can.

Over time, as they pay the mortgage down, the intent deduction is less meaningful, or if they pay their home off, or if they decide in later years to downsize. So all of those factors have to be taken into consideration.

A lot of what we saw in the buildup during that period of time was really due to the price of housing. It had nothing to do with what the mortgage interest deduction did to it. It was really in the pricing of homes.

Mr. Johnson. Mr. Dietz?

Mr. Dietz. I agree with the Joint Tax conclusion. When you look at the run-up in debt, the run-up in housing earlier in the decade, it was a lot of speculative bubbles, flippers and such. The way that the mortgage interest deduction's benefits accrue are, as he mentioned, sort of life cycle, and so they are over a number of years. The MID is not going to fuel a speculative bubble.

And if you want a cross-country comparison, an experiment, so to speak, you can look at we had housing bubbles in a number of countries around the world. They obviously don't have the same tax laws that we do, so, you know, it is hard to make a connection between the two, so I think Joint Tax is correct.

Mr. Johnson. Well, I thank you for that.

Mr. Thomas, and also Mr. Dietz, I wanted to get your reaction to some points made by a couple of the witnesses on the first panel. One of them, Toder from the Tax Policy Center and Mark Calabria from Cato, both argue the mortgage interest deduction has really no effect on home ownership. I would like to know your thoughts on that.

Mr. Thomas. Well, I would greatly disagree with that. I think that it does affect home ownership. If you look at Great Britain, which is just in the process of reducing the mortgage interest deduction in that country, the average homeowner entry level into home ownership is now advanced by 7 to 8 years, so it means that they are delaying home ownership by 7 to 8 years. A lot of that is due to the fact that they can't deduct their mortgage interest anymore.

We think that we would have the same problem. So we think that there is quite a correlation there.

Mr. Johnson. Makes it cost more to get in it, doesn't it?

Mr. Thomas. Absolutely.

Mr. Johnson. Yeah.

Mr. Dietz. I agree. I think it is not only an impact on the home ownership rate, the number of home-owning households in the country, but the timing of when they become homeowners. And that 7 years, using the United Kingdom as an good example, those are big years in terms of family events, household formations, marriage, children, and most importantly wealth accumulation over a long period of time, because home ownership is a vehicle for accumulating family wealth.

Mr. Johnson. You know, the Tax Policy Center also argues that the mortgage interest deduction encourages upper-middle-class households to buy larger and more expensive homes. Cato makes a similar argument, in that the benefits of deductions are highly concentrated among both the highest income and mostly leveraged household. I would like your thoughts on that.

Chairman Camp. Yeah. Just briefly, please.

Mr. Thomas. Well, again, if you look at the statistics in our written testimony, that is contrary to what we have, which is that, the vast majority of the benefit goes to people that are under $200,000 in income, and that a high percentage to those earning under $100,000.

Chairman Camp. Thank you. I do think we have to be careful in our comparisons to England, because they have large chunks of their country where you cannot get fee simple, you can only get a long-term lease, and that is a very different sort of model than we have in the United States.

Mr. Rangel is recognized.

Mr. Rangel. Thank you so much, again, for your patience and sharing your views with us.

I was intrigued by Congressman Johnson's question as relates to the connection between mortgage interest deduction and purchases. About 10 years ago, or whatever time it was, in Miami, Florida, and throughout Florida, seemed to be an overdevelopment of luxury condos, and there was the worry that wealthy people in New York could get a condo at a reasonable price without any downpayment based on the tremendous mortgage deduction that they would enjoy and the fact that there was continuous rapid appreciation of the property.

Does that concept make any sense, that they wouldn't need a downpayment, just go down and buy a million-dollar condo based on that concept, appreciation and deductibility?

Mr. Thomas. Well, I think a lot of them did it because of their anticipation of appreciation. However, that makes no economic sense. No, it never did. And the type of lending that was allowed at that time, we don't want to see that again. So, you know, those were not good elements into buying a property. Those were not wise investments, obviously.

Mr. Rangel. Yeah, but I think if they still own the property and it did appreciate, I doubt whether they didn't pay any downpayment, but, you know, these wealthy people get together and share with each other the great economic ventures that they have had. And I am saying, is it possible that this could have happened, no matter what it looked like, that wealthy people could acquire property without any downpayment just based on appreciation and the fact that the tremendous monthly payments were -- the interest was deductible and most of the early payments are interest and not principle?

Mr. Thomas. The majority of them is interest in the early months of --

Mr. Rangel. Yeah.

Mr. Thomas. -- early years of a mortgage.

Mr. Rangel. Yeah.

Mr. Thomas. Absolutely.

Mr. Rangel. And so isn't it logical that those who did it, whether it is bad economics or not, if they still have those places, notwithstanding the fact that they have leveled off, that at that time it seemed like a good deal and it was?

Mr. Thomas. Well, at the time they purchased it, I am sure they thought it was a good deal.

Mr. Rangel. No, no. I didn't say what they thought. They did it. But I don't know what happened to them since then.

Mr. Thomas. Well, a lot of those properties dropped in value dramatically.

Mr. Rangel. Okay. Let me get to the question of carried interest. I assume because you get a favorable and much lower rate with capital gains, that all of you would support it. I am trying to figure out why. What work would you do that would be different from anybody else that is not investing in the project so that their income would be an investment on capital, and therefore they gain, where other people, especially in the venture capital area, who do the same type of work, get taxed at a much higher rate because it is ordinary income?

So with the real estate, recognizing that you take risk, it is my understanding that anyone who opens a business or takes a position hoping that the business would increase are take a risk. But what makes the real estate industry different so that their profits should be treated differently than someone that is being taxed at an ordinary income rate? Mr. Thomas?

Mr. Moran. Well, I am not sure they should be treated differently than somebody else taking the same type of risk, but the risk that we take in the real estate industry in building buildings, as you know, you are buying land and you are taking the risk on the land, you got to get it zoned, you are getting it zoned, you got to go hire architects, you hire lawyers, and you try to put your package together. And once you have spent a lot of money to put all that together, the key point is, are you generating an economic return that somebody will invest in? And if somebody doesn't invest in it, then you are going to lose all your money.

Mr. Rangel. But they would be the investor.

Mr. Moran. Pardon me?

Mr. Rangel. The investor would be the person that you are turning it over to.

Mr. Moran. No, no. I am not turning anything over to the investor.

Mr. Rangel. You don't keep the property --

Mr. Moran. The investor is coming to me because I have got the asset. He is looking to make a return on his money. And I am the one that is going to take all the risk to build the project, to go get the bank loans, guarantee everything.

Mr. Rangel. Are all of you satisfied with --

Mr. Moran. And the only thing the investor would --

Chairman Camp. Well, I --

Mr. Moran. Pardon me?

Chairman Camp. I think time has expired, but --

Mr. Rangel. I just want to know.

Chairman Camp. I think, Mr. Thomas, we want to hear your answer on this, too, so we will make an exception here.

Mr. Rangel. You are a good chairman.

Chairman Camp. I will remember that, Charlie.

Mr. Thomas. Well, we actually agree with the other speaker, and that is that this is something that we do a lot of work for. In many cases we forego our commissions to put into the project, and so therefore we are invested in the project just like anybody else is. It just doesn't mean that we write a check out of it. I guess we could if we took the commission and then turned around and put it back in. But there are rationales for making it the same as the investor.

Chairman Camp. All right. Thank you.

Ms. Jenkins is recognized.

Ms. Jenkins. Thank you, Mr. Chairman.

As I am sure you are all aware, this committee has spent the last 2 years having hearings and releasing discussion drafts, and we have been meeting with stakeholders from every industry to build a foundation as we seek to achieve what others have warned us is a nearly impossible feat of giving our constituents a simpler and fairer Tax Code.

Mr. Thomas, in your testimony I read that the effect of the 1986 act had an effect on the real estate industry. Can you just elaborate for us on what lessons the committee members can draw from the last time we overhauled the Tax Code as it concerns the real estate industry?

Mr. Thomas. Well, what it did to the commercial arena is that it really negatively affected prices and the exchange of property through that Tax Code change. So if you look at that as history and see that it decimated that particular industry and what it did to savings and loan institutions at the same time, you realize that is the negative effect that you are going to see or could potentially see if you did the same thing on the mortgage interest deduction.

Ms. Jenkins. Okay.

Yes.

Mr. Moran. May I respond to that question? On the 1986 tax act there were two things that were very, very detrimental to the commercial part of the business. One of them was retroactive. So a lot of people had made investments 2 or 3 years prior anticipating they would receive certain income tax deductions and the law would remain the same. Obviously it did not. It changed.

But the major change that caused all the problems was the passive loss rules. What happened is all the capital was coming into the commercial industry and all of it was coming into the apartment industry from individuals. That was your source of capital. And when you passed the passive loss rules and they couldn't take any of their deductions and they were making all these investments, therefore what we told them when they went in, we couldn't deliver, because the law changed.

Mr. Moran. But the passive loss rules have taken the individual out of the market. Therefore, he wasn't supplying capital. Therefore, you had a recession from 1986 to 1994 before we started getting transactions going again and capital coming back into the business. And it started coming back in through the REITs and through the pension fund advisors, so you had two other types of entities.

So today, for example, individuals are still not investing in real estate because of the passive loss rules. So when you get to small towns and you get to secondary and tertiary towns where people in those towns used to invest in real estate, they don't do it because of the passive loss rules. So not only was it devastating between 1986 and 1994, you can still feel the effects today because you are saying where is the capital going to come from to help us fund our businesses?

Mr. Dietz. One more thing. As I mentioned in my testimony, the completed contract rules were another example in the 1986 act where a change was made and had to be made a fix, made 2 years later. And it is a reminder in general that real estate, the tax rules manifest themselves in the value of real estate. And so any impact on housing, for example, you get a 1 percentage drop in housing prices today, it is going to destroy about $177 billion of net worth. So you only need a 6 percent decline from where we are today to destroy a trillion dollars. So housing and the tax rules are very much connected.

Ms. Jenkins. Okay. Great. The first panel today discussed some recent options that have been proposed as part of major tax reform, drafts to reform our tax policy as it relates to housing policy and promoting home ownership. Today's testimony noted that recent major tax reform proposals, including Simpson-Bowles, President Bush's 2005 Tax Reform Advisory Panel, and the Bipartisan Policy Center have all recommended moving from an interest deduction to a tax credit. And I understand that these proposals are concerning to some of you and potentially threaten our recovering housing industry.

So could you just share with us has the housing industry conducted any analysis on what these policies -- what effect they would have on home prices?

Mr. Dietz. The real problem with the housing credits that we have seen as a replacement for the MID is that the rates are so low that they become nonstarters. A 12 percent rate is the most common. A revenue neutral tax credit would be something like 20 percent. So when it is down at 12 percent, you are really looking at a big tax hike for homeowners.

In terms of price impacts, the impacts are going to be the largest in those high cost areas. Where the average income is higher, so the marginal income tax rate is going to be higher, so that represents a larger tax hike.

Ms. Jenkins. Okay. I yield back.

Chairman Camp. Thank you.

Mr. McDermott is recognized.

Mr. McDermott. Thank you, Mr. Chairman. Mr. Moss, see, I come from Seattle where we spend a lot of effort politically passing initiatives for low income housing and we have passed levies on almost a continuing basis for the last few years to build housing. And so we have a lot of low income housing that is

managed by a variety of public agencies in some instances and sometimes by private nonprofits that are running them. And we have got Section 8 going on in our State like everybody else does.

Tell me from your point of view the place where we ought to put our emphasis on low income housing. Where should the money go if you are going to be the most effective? Is it in government building houses as we did before Ronald Reagan or is it in the low income tax credit stuff in 1986 and thereafter or is it in Section 8?

Because I see us coming to a point where we are having more and more old people in this society who are going to be looking for housing as they are forced out by taxes and other things. I am trying to figure out for the community where is the most effective -- or what is the most effective way to put the housing up?

Mr. Moss. Well, first of all, starting in 1986 when the tax credit was put in place, the low income housing tax credit, it started to replace all the failed Federal programs that had gone on prior to that time. Programs that did not have the private sector involved, that did not have the private sector with risk in the game.

And today the low income housing tax credit is the highest performing real estate class in the United States of any real estate class because of the private sector involvement, because of the State agencies doing the oversight and the underwriting and assessing housing need, and due to the nature of the type housing that is being built, which is very high quality housing.

The programs from the past, the Federal programs, are now being preserved using the low income housing tax credit. They are being regenerated by bringing in the private sector.

Mr. McDermott. You mean taking the old federally built ones and turning it into a low income tax --

Mr. Moss. Yes, sir. Bringing in the investors, renewing the projects, making sure that the units are rehabbed in a sustainable fashion so they will last another 40 years. It is a very important role that the credit plays is that it can play every position on the team. It can really fix rehab -- housing that needs rehab, Federal housing, it can do new construction, it can build housing for those individuals that have disabilities. It can build veterans housing. It is a very, very flexible program. I hope that answers your question.

Mr. McDermott. There is one in Seattle named the McDermott Place which has 54 homeless veterans living in it, so I know about how it is done. But you didn't say anything about Section 8. Where does Section 8 fit in all of this?

Mr. Moss. Well, Section 8 is not an operating new construction -- production program.

Mr. McDermott. I know it doesn't produce, but it is a way of saying you haven't got a house, so here is a voucher. Go find someplace in the private sector that will take it. Is that a more effective way than the building and operating it as a low income housing?

Mr. Moss. No, I don't believe it is. I believe that having the private sector involved --

Mr. McDermott. The private sector is involved in the Section 8, aren't they?

Mr. Moss. They can be, where the project receives project based funding or vouchers to support extremely low incomes which support the debt service for the property. But those Federal programs also had subsidies for debt when the properties are redone and rehabbed under the tax credit program it is at conventional debt rates and the vouchers and the subsidy provide subsidy to the renter, not to the property.

Mr. McDermott. What do you think the deficit is -- excuse me. Go ahead.

Mr. Moran. On the Section 8 question, I agree. When prior to 1985 we did several projects and those projects were Section 8 based projects, that was when passive losses were not a limitation, so we had all private capital doing those. We still have those properties today and those investors are happy with that investment over all the years, but they needed the passive loss rules in order to get that deduction in order to bring that capital into the business. Project based Section 8 works better than vouchers.

Chairman Camp. Mr. Renacci.

Mr. Renacci. Thank you, Mr. Chairman. I want to thank the panel for being here today. This morning I was talking with the earlier panel about simplification, how we have to make this program simpler, because that person that just comes in with a W-2 they need to be able to just get their return done without a professional. As I said, I was a professional, I had a CPA practice for many years prior to coming here.

On the other hand, I also indicated there are some people that aren't even aware that the interest deduction helps them, although it does because of the complications of the Tax Code. And I think after even visiting they found out that the interest deduction was helpful to them.

But one of the interesting comments in the earlier panel was somebody had indicated that repealing the mortgage interest deduction would reduce home prices by roughly 13 to 15 percent. Any comments on that? I thought that was an interesting number.

Mr. Thomas. Well, our number is very similar. The number that our economist has come up with is about 15 percent. That would be devastating to this economy if we were to do that. You understand what that would do to putting that many more people under water, and would increase the number of foreclosures again. It would blow way out of proportion. We believe that it would throw the country back into a recession. So that would be devastating if it was 15 percent.

Mr. Dietz. Our numbers are -- it is smaller but similar. You could have dueling economists, what is the right price effect. It is going to differ by area, it is going to be larger in high cost areas. But the big thing is it will impact. And I mentioned before, every 1 percentage point it is about 177 billion off of household net worth. If you are talking 15 percent, you are talking up to a $2 trillion windfall loss for homeowners.

Mr. Renacci. Mr. Moran, President Obama has proposed lowering the corporate tax rate to 28 percent. I heard in your testimony not only are you a CPA but you represent an industry that has a lot of partnerships and LLCs. What would you say to those who advocate for doing corporate tax reform only and how would it affect your members?

Mr. Moran. Our position has always been we are looking for comprehensive tax reform and to do both the corporate and the individual at the same time, because there would be crossovers on certain provisions. And we don't think one should be penalized -- to bring down the rate over in the corporate, we shouldn't penalize the individual. So I think it should be looked at at the same time. We are not averse to the rate coming down. We think the rate should come down overall, because on a competitive basis to bring money into the United States and we need to have a global rate that makes sense. And our global rate is higher than other people.

Mr. Renacci. But you are saying corporates, LLCs, partnerships should all be looked at as one corporate rate?

Mr. Moran. No, no, no, I do not say that. There is 2.5 million partnerships in this country. They control about $12 trillion of assets. They generate $400 billion a year in income. And all of those partnerships are there for a reason. There are different people putting up money. There are different people taking risks and they are allocated differently. So they don't run like corporations.

Mr. Renacci. I understand that, but when we look at corporate tax reform, I am saying we should be looking at all the entities?

Mr. Moran. Yes.

Mr. Renacci. One other question. Mr. Thomas, this is for you but others can answer. The Tax Code currently allows deduction for interest on mortgages up to 1.1 million. Do you think that is appropriate? What is an appropriate level?

Mr. Thomas. I think it is appropriate because of the area in which I live and work. So obviously I think it is appropriate. It is taken where it is needed. Across the country there aren't that many people that go all the way up to the maximum. But again in my particular area, $500,000 buys a starter home. So if you were to reduce the limit down to 500,000 that is going to negatively affect most of the coastal areas of the country where the prices are much higher. So it would have a negative effect.

Mr. Dietz. In addition to high cost areas, you could also have stocking issues. If you have multiple home ownership, for instance someone who is about to retire and they have one home where they work and one home where they plan to retire soon, two they own simultaneously, both mortgages that limit is for both homes under Section 163.

Mr. Renacci. Mr. Chairman, I yield back.

Chairman Camp. Mr. Neal.

Mr. Neal. Thank you, Mr. Chairman. Just a quick comment based on previous experience in terms of dealing with Section 8s. It is the saturation point on Section 8s that begin to change neighborhoods, it is the concentration of Section 8s. I think that is one of the challenges, because as I pointed out to the other panel, there are few issues that are more complex in urban economics than housing. In the experiments we had in the 50s and 60s with many of our veterans coming back it worked very well. And then as the housing grew much older and there was less money to keep it up to date, in old cities landlords began to walk away from properties. And one of the phenomena during those years was abandonment. And those of us who had to deal with that abandonment issue it was very significant because it was great difficulty in tracking the landlord. And I think having the private sector involved in helping to discipline the aspects of the marketplace is terribly important.

Mr. Moss, I am surprised that you mentioned the shortage of affordable housing. And it is always important I think to use the term "affordable housing," because the connotation of low income housing again is that you are going back to high right developments and that you are going back to a concentration of Sector 8s. But you mentioned that there is a shortage of affordable housing in your testimony. Would you speak to that issue, please?

Mr. Moss. Yes, the Harvard study that was most recently published, the report showed that only four eligible low income households out of 10 were finding an apartment that achieved affordability for them. Four out of 10. So there are six households out of 10 that cannot find an apartment where their rental costs are 30 percent of their monthly income or less. They are paying 50 percent, 60 percent of their monthly income in rent. And so the rent burden is tremendous in this country.

The Harvard report demonstrates that, sir, and also the recent Bipartisan Policy Housing Center report.

Mr. Moran. One of the confusing things -- on affordability, we need to define it. So some people say affordability was 80 percent of the median income. And if you do 80 percent of the median income, like the apartment industry, 90 percent of the people in housing are affordable. The low income where you can only afford to pay 50 or 60 percent or 40 percent of the median income is where the real problem is. So it is the

low income which needs to be subsidized and needs to have the credits and needs to have the Section 8s. If that gap that is currently there is going to be going to close that gap.

Mr. Neal. But I also think it is fair to say that management is a key issue.

Mr. Moran. Yes.

Mr. Neal. On how those units are managed.

Mr. Moran. Yes.

Mr. Neal. If you get some first class management teams nobody would even know it is affordable housing or subsidized housing. And then if you get a bad management team that simply accepts the subsidy and walks away from the property when things start to go south for them on their other investments, and that is frequently what happens, they stop any sort of upkeep to the property. And I think we need to be mindful of that.

How would you strengthen the low income credit? I have been a supporter of new markets, low income housing credits. I think it works. How would you propose strengthening the option?

Go ahead.

Mr. Dietz. Your bill with Mr. Tiberi that --

Mr. Neal. I was hoping you would say that.

Chairman Camp. I don't see a prompt here, do I?

Mr. Dietz. Without that the credit rate on the tax credit falls and it results in 18 percent less equity in the deal. So fixing that rate ensures that a sufficient amount of equity is available, because this is a production program. And we heard in the earlier panel, economists like vouchers in theory. But vouchers don't help build the property. They help allocate the demand after the fact. This program is really useful in the sense it provides safe affordable housing on the production side.

Mr. Neal. Thank you, Mr. Chairman.

Chairman Camp. Thank you. I will go to Mr. Blumenauer and then we will close with Mr. Griffin.

Mr. Blumenauer. Thank you very much. I appreciate the special emphasis that several of you have made in terms of the low income tax credit. I think it is important to drive that home when there is so much in flux. I would just put three things on the table because you all represent groups that have certified smart people and it might be useful to get a little context and feedback from you. So I will put the three and then I will get out of your way.

One, you may have heard comments that I had made earlier about the impact of the Federal Tax Code subsidizing people who live in areas that are frequently prone to disaster, and in fact some of them are in areas that by Federal law were not supposed to provide infrastructure support from the Federal Government. Yet we are subsidizing, for example, on a second home and then after we pay Federal money to help clean things up, then they go right back and are able to qualify for a deduction. And I would appreciate if again this might be something that some of your certified smart people might be able to help us with in terms of some feedback.

The second deals with strengthening the provisions -- I have long felt comfortable with the notion of having the capital gains exclusion for residential real estate, because nobody paid it except the dumb, the distressed, or the divorced. But there have been instances that have been described to me where people use the provisions under current law where it is two out of the five, but they use if to sort of serially flip, bouncing back and forth with a residential property and they switch that advantageously to be able to serially harvest the capital gains exclusion. It is not something that is a long-term residence that they are a part of. And if you have some thoughts, some smart person there could give us a little written response.

The final question that is of interest to me is today the extent to which residential property represents people's retirement security. Notwithstanding the fact that a lot of folks are under water and they are up and down, but when we are watching pensions disappear, when we are watching 401(k)s become 201(k)s, when we are watching a number of people tapping early retirement because of financial problems. They are retiring early with Social Security. They are taking things out of 401(k)s, their IRAs. If you could help us identify the role you think residential property plays in retirement security going forward, it would be something that I would be very interested in.

Mr. Dietz. On the gain exclusion in 2008 in HERA, the Housing Economic Recovery Act, there was a change made in Section 121 to address that two of five provision. And it was a change that was supported by the industry at the time. It stipulates that you can't claim the gain exclusion for years in which you don't use the property as your primary residence. So someone who is using it for speculation or an independent landlord or owning it for a long period of
time --

Mr. Blumenauer. My question is, is that tight enough to prevent people from intent to reside being able to game the system?

Mr. Dietz. And on the third issue that you raised we have papers and research on the importance of housing wealth. It did take a big hit. Household net worths declined 40 percent. Polling surveyed consumer finances from 2000 to 2010. But recent price gains have begun to repair that, and obviously for reasons the housing tax incentives will go in the opposite direction.

Mr. Blumenauer. Thank you, Mr. Chairman. I would just welcome any of those little papers that you have got in those areas.

Mr. Thomas. Sure. On the first question that you had I might comment that is really a local land use issue. Because if authorities are going to continue to allow building there, people are going to continue to build. That is where the problem lies.

We as realtors supported phasing out subsidized flood insurance last year. So, you know, we understand.

Mr. Blumenaeur. But if we get rid of the tax deduction it would be recommended. Thank you,
Mr. Chairman.

Chairman Camp. Mr. Griffin is recognized.

Mr. Griffin. Thank you, Mr. Chairman. Thank you all for being here today. And I know that you all share our general goal of simplifying the Code and having a pro-growth Tax Code. There are certainly provisions in it that I know you favor. But we can all agree that it is a mess. And we are trying to make it better.

You have -- I assume you heard some of the folks on the first panel give some of their ideas on what they would prefer to see instead of the mortgage interest deduction that we have. One of those proposed is some sort of credit. I would like to first hear from you four -- whoever wants to speak -- what your opinion is on

the credit, and how it would impact what we consider middle income Americans who rely on the mortgage interest deduction.

Mr. Dietz. The first problem with the credit is the rates. We saw a 15 percent rate proposed in 2005. A 12 percent rate proposed by recent commissions, including the Bowles-Simpson commission. That rate is so low compared to the marginal tax rates which is still the comparable value that it reports a significant tax hike for homeowners.

So the question is who are the winners and who are the losers? There might be some winners, but we definitely know who the losers would be moving from that kind of credit from the existing deduction. It would be young folks who have to use a mortgage to buy a home in high cost areas.

Mr. Griffin. I think that it is fair to say and I think you would agree with this, that credits suggested or changes suggested also assumed that marginal tax rates are changed. And some of the analysis that I have seen or heard of the credits -- and we discussed this a little bit with the earlier panel -- assume that you have to have some sort of change in that marginal tax rate.

Can you comment on it? Because clearly if you took the marginal tax rate down to a high of 25 percent, for example, clearly that is going to be favorable to people like me who count on the mortgage interest deduction and a lot of middle income Americans. So how does that change in any way your analysis?

Mr. Dietz. Pro-growth tax policy that creates jobs, would raise wages and make the economy grow faster. That is good for housing. But as you say, there is a lot of assumptions. And for example, one of the assumptions with moving to a tax credit is what happens to the real estate property tax deduction? The proponents always focus on the MID to a tax credit, but they don't explain, well, we assume the property tax deduction is completely eliminated. That could also reduce the value for home buyers.

Mr. Griffin. Anyone else that wants to comment on that? Okay. I thank you all for being here.

Quickly, I think I have another minute. There was a comment made on the previous panel that the mortgage interest deduction incentivizes debt as opposed to equity. And do you have any comment on that?

Mr. Dietz. By reaction when I hear that, people don't take out debt to make money. You pay interest; it is a cost. Mortgage interest deduction offsets the cost of that debt. The question is who needs debt to buy homes? Well, it is particularly younger households and in fact our research has shown who are the primary beneficiaries of the mortgage interest deduction with shared household income, it is younger households that need the mortgage to buy a home. If you get rid of it, prices are going to fall and who wins? Cash buyers, investor buyers. That is not good policy for a stable middle class.

Mr. Thomas. Yes, and I would also say that increasing the debt and the amount that you pay on that, you are not getting that entire amount back in a tax benefit so the law doesn't really encourage you to take on more debt.

Mr. Griffin. Well, I think that we are all looking very carefully at this because we understand that whatever changes we make are going to have a impact, positive or negative, on a lot of Americans that count on this that are having a hard time making ends meet anyway. But we are focused on having a simpler, fairer Code that encourages economic growth which will benefit us all.

Thank you all for being here today. Really thoughtful and we appreciate it.

Chairman Camp. Thank you. We do have one more questioner, Mr. Young, and then we will conclude the hearing.

Mr. Young. Thank you, Mr. Chairman. Really very informative hearing here. I thank all our panelists for appearing here today and for delivering your testimony.

Earlier we had a panel where we received testimony that a disproportionate share of the home mortgage deduction benefits go to taxpayers in the largest metropolitan areas. One witness testified that 20 percent of the tax benefit is claimed by taxpayers in California.

First, do you have any reason to believe that that testimony was incorrect? And if not, then do you have concerns about this? Concerns about the disparate benefits between geographic areas and between types of communities across our country as reflected in the Tax Code?

Mr. Dietz. You know, the mortgage interest deduction obviously is on a nominal dollar basis more valuable in high cost areas. But as I mentioned in our testimony, that is actually one of its merits in the sense that it is one of the elements, one of the few elements in the Tax Code that does account for differences in the cost of living. Property tax deduction is the same way. You want an incentive that encourages young home buyers to be able to buy in high cost areas. Why are they high cost? They are high cost because the have dense concentrations of population. That is where things are growing. That is where wages are growing. And if you shut out those younger home buyers from those kinds of markets, that is going to have a distinct economic impact.

Mr. Thomas. And those areas are obviously very, very concentrated in numbers of households and so you are going to have a disproportionate share. The number of households in California is much higher than in most of the rest of the country anyway. So you are going to have that effect. Plus just the sheer cost of building in those areas produces higher costs.

Mr. Young. If there is no other thoughts or perspectives on that, I thank you again and I yield back.

Chairman Camp. Is the 20 percent accurate?

Mr. Thomas. I don't know that it is. We would have to do research on that. That seems awfully high.

Chairman Camp. I want to thank this panel. You have been an excellent panel. And I appreciate your views and your perspectives and obviously, as I have said, tax reform is a critical issue to this committee and we remain committed to moving forward in an open and transparent manner. And your participation today is obviously a very important part of that process.

I would ask that you promptly respond in writing to any areas where that was requested or would be appropriate, and as we prepare the formal hearing record we will make those written submissions a part of that. So again, thank you for being here. The committee stands adjourned.

[Whereupon, at 1:05 p.m., the committee was adjourned.]