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HEARING BEFORE THE

HOUSE WAYS AND MEANS

SELECT REVENUE MEASURES SUBCOMMITTEE

ENTITLED

"HOW MIDDLE CLASS FAMILIES ARE FARING IN TODAY'S ECONOMY"

TESTIMONY OF

KEVIN BROWN

ON BEHALF OF

THE NATIONAL ASSOCIATION OF REALTORS®

FEBRUARY 13, 2019

Introduction

Chairman Thompson, Ranking Member Smith, and members of the Subcommittee, my name is Kevin Brown. I am an owner of both a residential and a commercial real estate brokerage in Oakland, California, and have over 40 years of experience as a real estate professional. Over the years, I have been very active as a volunteer leader in the real estate industry at the local, state, and national levels, including as the 2014 president of the California Association of REALTORS®.

I am here today to testify on behalf of the more than 1.3 million members of the National Association of REALTORS®. NAR's members are real estate professionals engaged in activities including real estate sales and brokerage, property management, residential and commercial leasing, and appraisal. The business approach of REALTORS® is a highly personal, hands-on, face-to-face model, focused on helping fulfill a family's fundamental need for shelter. NAR has long prided itself as a voice for not only its members, but for America's 78 million homeowners, as well as the tens of millions more Americans who aspire to own their home one day.

Thank you for the opportunity to present NAR's views on how middle-class families are faring in today's economy. This is a vital issue with multiple facets. Naturally, the focus of my remarks will be on residential housing, and especially on the middle-class and home ownership. Purchasing a home is one of the most significant events that most Americans undertake in their lives, and the ability and decision to do so is fundamental to various aspects of individual, family, community, and national well-being. Because of the importance of this issue, the barriers to home ownership deserve the serious attention of all Americans, and especially policymakers.

Homeownership and American Culture

Policymakers should not dismiss or underestimate Americans' passion for homeownership, notwithstanding the most recent economic crisis. Calling homeownership the "American Dream" is not a mere slogan, but rather a bedrock value. Owning a piece of property has been central to American values since Plymouth and Jamestown. Homes are the foundation of our culture, the place where families eat, learn and play together, and the basis for community life. The cottage with a picket fence is an iconic and irreplaceable part of our heritage.

The Nation's long-standing commitment to homeownership as a foundation of our society is not misplaced. Now, more than ever, homeownership does and should remain in the forefront of our cultural value system.

The fundamental assumptions about the social benefits of housing and homeownership remain essentially unchanged. NAR polling and focus group research confirm that the public continues to share those assumptions, including those who currently do not own their own home. An overwhelming majority (92 percent) of renters aged 34 and younger aspire to own a home. And among renters of all ages, 83 percent have a desire to own. Seventy-six percent of them believe that homeownership is part of the American Dream.[1] Remarkably, even after the housing problems stemming from the Great Recession, this faith in homeownership persists.

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[1] *2018 Homeownership Opportunities and Market Experience (HOME) Survey* conducted by the National Association of REALTORS®.

The Benefits of Homeownership

Economic Impact. Research has consistently shown the importance of the housing sector to the economy and the long-term social and financial benefits to individual homeowners and communities. The economic benefits of the housing market and homeownership are immense and well documented.

The housing sector directly accounted for more than 17 percent of America's total economic activity in 2017. Moreover, the economic impact of a typical home sale exceeds $80,000.

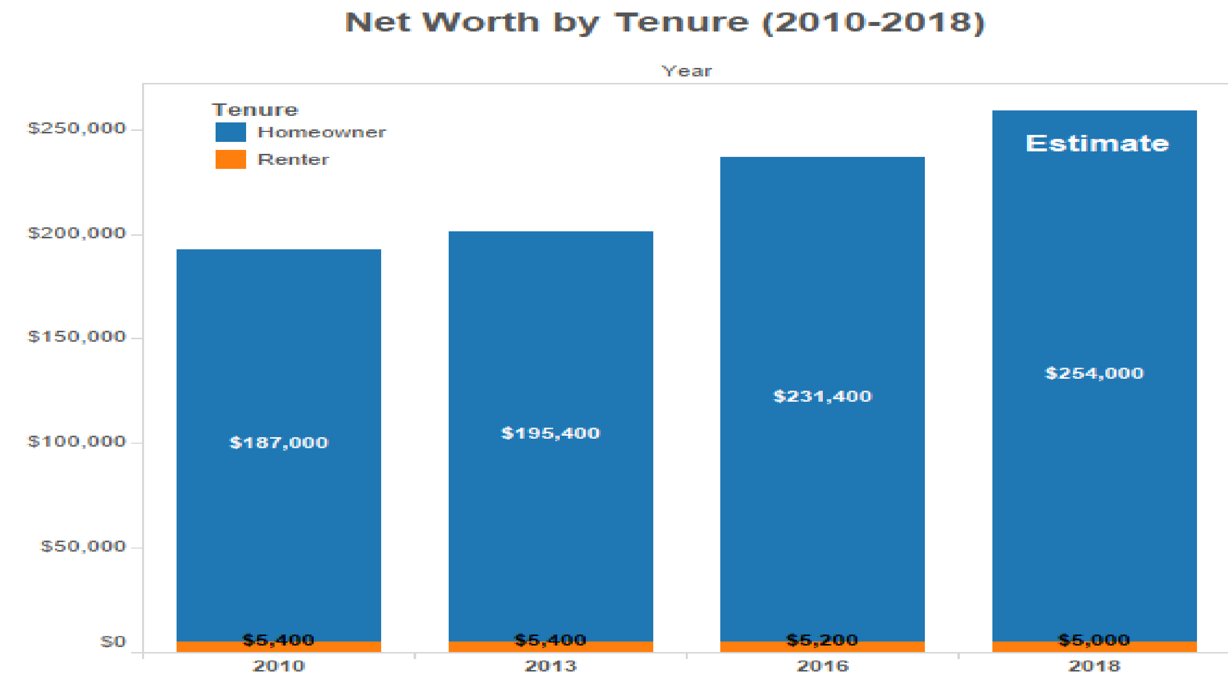
Household Wealth Building. Net of mortgage liabilities, real estate household equity reached a record $15.4 trillion in the third quarter of 2018.[2]

The importance of homeownership on household wealth building in the United States is difficult to overstate. According to data from the Federal Reserve Flow of Funds, the aggregate net worth of households and non-profits reached a record $109 trillion in the third quarter of 2018. This is an astounding 60 percent ($39 trillion) above its peak before the recent downturn.

Homeowner equity is a substantial component of household wealth. The Federal Reserve's Survey of Consumer Finances provides a snapshot of household income and net worth along with basic demographic details and a breakdown of household assets. Based on these data, the typical homeowner's net worth in 2016 was 45 times greater than was the net worth of those who rent a home.

NAR has projected the 2018 household wealth figures for 2018 based on price appreciation since 2016. As can be seen in the chart below, NAR estimates the typical net worth of homeowners in 2018 was $254,000, an increase of 10 percent since 2016, while the typical household wealth of a renter in 2018 has decreased to $5,000, a 7 percent drop over the same period. Thus, according to these projections, the typical homeowner's household net worth in 2018 was 51 times greater than that of the typical renter. This is up from 45 times the wealth of a renter just two years ago and 35 times as much in 2010.

[2] *Federal Reserve Bank of St. Louis, https://fred.stlouisfed.org/series/OEHRENWBSHNO*



Sources: Survey of Consumer Finances (Federal Reserve), NAR Calculations

Social Benefits. In addition to tangible financial benefits, homeownership brings substantial social benefits for individuals, families, neighborhoods, and the Nation as a whole. These include increased education achievement and civic participation, better physical and mental health, and lower crime rates. Such salutary effects stem from not only the higher stability that homeownership brings to neighborhoods and communities but also from the increased financial stake that comes to homeowners as a result of their investment in their property. These economic and societal advantages do not change and will not change, despite the ups and downs and challenges of the housing market.

In a survey by NAR released last June, homeowners and non-homeowners were asked if a high rate of homeownership strengthens a community. Sixty-seven percent of respondents said that homeownership strengthens communities a great deal, and this number jumps to 76 percent for current homeowners and 77 percent for those 65 and older.

Experience shows that homeowners are more likely to be involved and engaged in the issues facing their communities, since they tend to be more rooted in the area than are renters. Homeowners are more likely to vote, to volunteer their time at local charities and to support neighborhood upkeep. This involvement helps shape and strengthen our Nation's communities.

Government Support for Homeownership. Federal policy has long recognized the proliferation of benefits brought about by homeownership and has thus included various provisions to encourage more of it in our society. This has especially been the case in the federal tax law, which has, since its inception, provided strong tax incentives for purchasing and owning a home.

To be clear, our tax system does not "cause" homeownership. People buy homes to satisfy many social, family and personal goals. Rather, the tax system facilitates ownership. The tax system supports homeownership by making it more affordable.

When academics talk about these tax incentives for home ownership and refer to them as "expenditures," they are speaking in the language of macroeconomics. In reality, the billions of tax dollars they see as expenditures are the cumulation of individual savings of millions of families. Every time homeowners make a mortgage payment, they are generally creating non-cash wealth for their families. Many seasoned REALTORS® describe their satisfaction in helping a family secure its first house and then a larger home(s) for raising families. The most satisfying of a long-term series of transactions is often in helping a couple buy its last house without a mortgage. Those couples are able to make this "last" purchase because ownership over a long term of years has resulted in the accumulation of household wealth sufficient to meet their needs.

The federal policy choice to support homeownership has been key to making homeownership possible for tens of millions of Americans. However, several changes in the tax law brought about in the Tax Cuts and Jobs Act of 2017 have undermined significantly the incentive effect for those who hope to move from renting to owning a home. This is discussed more fully in the next section on barriers to homeownership to the middle class.

Barriers to Homeownership for the Middle Class

Despite the multitude of benefits accompanying the ownership of one's home and the many ways that various government programs and incentives strive to make the purchase of a home easier, there are significant barriers to accomplishing this goal for many in the middle class. And unfortunately, these obstacles seem to be growing.

Affordability. Over the last 6 years (2012-2018) nationwide, home prices increased by 44 percent while wages increased by only 17 percent. This gap between price and wage growth reduces the ability of Americans to buy a home by lowering the affordability.

Based on the REALTORS® Affordability Distribution Curve and Score, affordability has dropped significantly across the United States over the past year. In January 2019, a median household can afford to buy 39 percent of the homes currently listed for sale while the same household could afford to buy 50 percent of such homes a year earlier[3].

While nationwide statistics such as this are useful, it is vital to note that individual families buy homes in specific geographic areas, and these areas vary widely around the Nation. For example, in San Francisco, one of the most expensive housing markets in the country, households earning $100K can afford to buy only 11 percent of the homes for sale.

Lack of housing inventory is considered the main factor that drives up home prices. Although new home construction has picked up, it is still not enough to accommodate the increased housing demand. Recently, the pace of building permit issuance has been only about half the peak level in 2005. Furthermore, the unemployment rate is hovering at 4 percent due to the strong economy. As

[3] *REALTORS® Affordability Distribution Curve and Score, December 2018, https://www.nar.realtor/research-and-statistics/housing-statistics/realtors-affordability-distribution-curve-and-score*

more people enter back into the work place the demand for housing is expected to increase as more Americans set their sights on homeownership.

The strong economy also negatively affects the affordability of homes in another way. The U.S. is experiencing a serious shortage of skilled construction labor, and this both drives up costs and delays the completion of housing construction.

NAR also produces a housing shortage tracker, which is an index that compares how many building permits are issued relative to the number of new jobs. The higher the index the higher the housing shortage in an area, since it shows that more jobs have been created than homes.

Nationwide, we see that a single-family permit is issued for every three new jobs for a ratio of 3. Historically, the average has been a single-family permit issued for every two new jobs, or a ratio of 2. In some metropolitan areas, the index is much higher.

Our most recent housing shortage tracker computed the top 10 metro areas in the U.S. with housing shortages. Seven of the top ten were in California, and they ranged from the number one shortage area – San Jose-Sunnyvale-Santa Clara with an index of 13.6 to the eighth, which is Oxnard-Thousand Oaks-Ventura, with an index of 8.1. By way of comparison, the Washington, DC area had a ratio of 3.86 and the Atlanta area had a ratio of 2.72.[4]

The National Association of REALTORS® is forecasting that home prices will continue to rise nationwide over the next couple of years – by 2.2 percent in 2019 and by 3.2 percent in 2020.

Higher Burdens of Student Debt. Over the past two decades, rising college costs, along with stagnant incomes, state budget cuts to higher education and the shift to student loans as the predominant form of federal financial aid, have all combined to create a much larger financial burden for students and families.

The U.S. has a student debt load of $1.4 trillion, which accounts for 10 percent of all outstanding debt and 35 percent of non-housing debt. The magnitude of the debt continues to grow in size and share of the overall debt in the economy.

According to the National Association of REALTORS® Profile of Home Buyers and Sellers (2018)[5], 24 percent of all recent home buyers have student loan debt and the typical amount is $28,000. Among first-time homebuyers, the share with student loan debt rises to 40 percent. Even though these groups were successful in purchasing a home, student loan debt was cited as a difficulty in their home buying process.

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[4] *NAR Housing Shortage Tracker, Economists Outlook, http://economistsoutlook.blogs.realtor.org/2018/06/13/housing-shortage-tracker/*

[5] *2018 Profile of Home Buyers and Sellers, National Association of REALTORS®, https://www.nar.realtor/research-and-statistics/research-reports/highlights-from-the-profile-of-home-buyers-and-sellers*

Exhibit 5–15: Buyers Who Have Student Loan Debt

(Percentage Distribution)

	ALL BUYERS	FIRST-TIME BUYERS	REPEAT BUYERS
Have student loan debt	24%	40%	17%
Under $10,000	19%	16%	23%
$10,000 to $24,999	27%	27%	27%
$25,000 to $49,999	24%	24%	25%
$50,000 to $74,999	12%	14%	11%
$75,000 or more	18%	20%	15%
Median amount of student loan debt	$28,000	$30,000	$25,000

The 2017 Student Loan Debt and Housing Report focuses on younger millennials (born 1990 to 1998) and older millennials (born 1980 to 1989). The results of the survey demonstrate the impact that student loans, even amongst those who are managing to pay their bills on a timely schedule, have on their housing situation. Among survey respondents, 79 percent received their loans from a four-year college, 19 percent from a two-year college, 29 percent from graduate/post-graduate school, and seven percent from a technical college. While the respondents are now paying on time, 32 percent had defaulted or forbore on their loans in the past. Student loan debt impacts other life decisions including employment, the state the debt holder lives in, as well as life choices such as continuing education, starting a family, and retirement.[6]

Findings indicate that borrowers would put the extra money they would have if they did not have student loan debt towards long-term savings, investments, or a home purchase.

Among non-homeowners, 83 percent cite student loan debt as the factor delaying them from buying a home, as it made it impossible to save for a down payment. Of those who did buy a home, 50 percent reported that student loans made saving for the down payment difficult.

Among homeowners, 28 percent say student debt is impacting the ability to sell their existing home and move to a different home. The typical delay in buying a home among non-homeowners is seven years. For homeowners wanting to move to another home, the delay is three years.

Millennials and Homeownership. Millennials have recently surpassed Baby Boomers as the Nation's largest generation, and the biggest group of potential and actual home buyers. According to the 2018 Millennial Homeownership Report, 90 percent of millennial renters want to purchase a home, but under 5 percent plant to do so within the next year, while over a third expect to wait five years or more.

Seventy-two percent of millennial renters who plan to someday purchase a home cite affordability as a reason for the delay, with 62 percent specifying a lack of down payment savings. Of these millennial renters, 48 percent have no savings for a down payment and just 11 percent have saved at least $10,000.

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[6] *2017 Student Loan Debt and Housing Report, National Association of REALTORS®*
https://www.nar.realtor/sites/default/files/documents/2017-student-loan-debt-and-housing-09-26-2017.pdf

Student debt plays a role in delaying homeownership for many millennials. About 23 percent of college graduates without student debt can save enough for a down payment within five years, compared with just 12 percent of college graduates who are paying off student loans. Only about 6 percent of those without a college education will likely be able to save for a down payment within five years.[7]

More About Regional Cost Differences. The wide variety of costs around the Nation means that the size of the barriers to homeownership for the middle class will greatly depending on where one lives. While living in a high-housing-cost area can also mean that income is higher, this does not necessarily mean that affordability will be equalized.

And even within states, there can be a great disparity between cities and counties in different regions.

To some extent, the median price of houses tracks the median household income in a particular area. But even at its best, this is certainly not a perfect correlation. For example, the state with the highest median listing price is Hawaii, at $619,000. However, the Aloha State ranks number 6 among states for median household income, at $73,575.

The state with the lowest median listing price of homes, West Virginia (at $159,000) is also near the bottom (number 48) for median household income, at $44,061.

Other states, however, are quite a bit out of kilter in this lineup. For example, California, which is the second highest state in terms of median house listing price (at $544,000) is all the way down to number 14 in terms of median household income, with $69,759. Based on this, of course, it might be even harder to afford a home in the Golden State than it might at first appear. Ohio, on the other hand, is ranked 49th among the states in median house listing price, at $169,900. Its median household income, however, is right in the middle of the pack, at $52,407, making it relatively easier to afford a home.[8]

As challenging as these disparities may make it in terms of middle-class families affording a home, the tax law, with its one-size-fits-all incentives, can be far worse.

Tax Incentives for Purchasing and Owning a Home. As mentioned above, federal housing and tax policies have long supported the goals of widespread homeownership in America. Over the

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[7] *2018 Millennial Homeownership Report: American Dream Delayed, 12/06/2018, https://www.apartmentlist.com/rentonomics/2018-millennial-homeownership-report-american-dream-delayed/*

[8] *Sources: Median Household Income by State: 2017 Update, 10/30/18, https://www.advisorperspectives.com/dshort/updates/2018/10/30/median-household-income-by-state-2017-update; Business Insider: The most expensive and affordable states to buy a house, ranked, 08/18/2018, https://www.businessinsider.com/cost-to-buy-a-house-in-every-state-ranked-2018-8*

years, this has taken several forms, including a first-time homebuyer tax credit, which was vitally important during the depths of the most recent housing crisis. However, the longest-running and largest tax incentives for home ownership by far in terms of impact on taxpayers and on the Treasury have been the mortgage interest deduction (MID) and the deduction for property taxes.

From the inception of the modern Internal Revenue Code in 1913 until 1987, both of these deductions were essentially allowed without limit, as long as homeowners itemized their deductions. The Revenue Act of 1987 placed a $1 million cap on the amount of mortgage debt the interest of which could be deducted. Significantly, this limit was not adjusted for inflation.

At the time the limit was enacted into the tax law, relatively few homes in America had mortgages of more than $1 million. However, due to inflation and other economic factors, home price increased, and those increases varied greatly throughout the Nation, and after some years the limit began to affect more and more home purchasers in those parts of the country with the highest housing prices.

By 2017, the cap was still well above the amount of most mortgages taken out throughout the U.S., but in some of the highest price housing markets, the limit was routinely breached, even for relatively modest homes. Thus, in those areas with the highest-priced homes, the mortgage interest deduction limit was already affecting many current and prospective homeowners, not because their homes were necessarily lavish or large, but in many cases simply because they happened to live in a higher-cost area.

The Tax Cuts and Jobs Act of 2017. The Tax Cuts and Jobs Act (TCJA), enacted in December 2017[9] represented the largest reform of the tax law in more than 30 years. Among the multitude of its provisions were several that directly and indirectly affected the tax incentives for purchasing and owning a home.

Direct Changes of TCJA on Tax Incentives to Purchase and Own a Home. As to the MID, the TCJA lowered the mortgage debt limit from $1 million to $750,000, although the larger limit was grandfathered for existing loans and even for the refinancing of those loans to the extent that the loan balance was not increased. Again, for most of the population of America, the lower limit did not immediately affect new home buyers as the average medium existing home price in the country on November 30, 2017 was $247,200[10].

However, in areas where the home prices were much higher, the lower limit had an immediate and negative effect for those who borrowed more than $750,000 to purchase their home. For example, for someone in the new 24 percent tax bracket, the first-year reduction in the tax benefit from the MID was about $2,300, assuming a mortgage of at least $1 million financed with a 3.9 percent 30-year loan.

[9] *Public Law No. 115-97, enacted December 22, 2017.*

A similar negative impact from the TCJA can also be found in the new $10,000 limitation on the state and local tax (SALT) deduction. In this case, the new tax reform act represented the first encroachment on full deductibility of real estate taxes[11]. As with the direct MID change, however, the new limit was regional in its impact, as most homeowners through the U.S. fall far below the $10,000 limit for all state and local taxes, as can be seen from the chart on the next page.

The chart indicates that for the tax year 2014, all but a handful of states had an average SALT deduction of well less than half the new limit. While there will be some homeowners in every state that are pinched by the new SALT cap, it will be a non-factor for the majority of homeowners in the nation. That is, at least for the immediate future. As with the old and new MID mortgage limits, the new SALT limitation was not indexed for inflation[12]. So, as taxes naturally rise with inflation and other economic factors, more and more current and prospective homeowners will be caught by the new cap and will see the amount of tax benefits of owning a home go down.

Despite the situation that most of the nation is not immediately affected by the new and direct changes of the TCJA on MID and the property tax deduction, the fact remains that millions of homeowners in the higher-housing-cost areas of the nation will be negatively impacted by the changes. And many of these will be members of the middle-class living in homes that are far from large and lavish.

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[11] *The new SALT deduction limit is also notable for its creation of a significant marriage penalty, as its $10,000 limit applies both to single as well as to married taxpayers.*

[12] *It is also important to note that the SALT limit, along with most of the other tax changes to individual taxpayers, is scheduled to sunset at the end of 2025. At this time, it is practically impossible to know whether the current or future Congress and President will be able to extend the provisions before they expire.*

Figure 7 — Percentage of Tax Units that Use the SALT Deduction and the Average Deduction by State

State	% with SALT Deductions	Average SALT Deduction
MD	45%	$5,604
CT	41%	$7,774
NJ	41%	$7,045
DC	39%	$6,056
VA	37%	$3,998
MA	37%	$5,421
OR	36%	$4,211
UT	35%	$2,753
MN	35%	$4,273
NY	34%	$7,182
CA	34%	$5,807
RI	33%	$3,985
GA	33%	$2,830
CO	33%	$2,796
IL	32%	$4,164
DE	32%	$2,787
WI	32%	$3,551
NH	31%	$3,003
WA	30%	$2,125
IA	29%	$2,812
HI	29%	$2,624
NC	29%	$2,629
PA	29%	$3,083
AZ	28%	$1,977
MT	28%	$2,483
ID	28%	$2,312
NE	28%	$2,992
ME	28%	$2,997
VT	27%	$3,246
SC	27%	$2,224
MI	26%	$2,434
OH	26%	$2,650
MO	26%	$2,436
KY	26%	$2,438
AL	26%	$1,457
KS	26%	$2,338
NV	24%	$1,422
OK	24%	$1,878
IN	23%	$1,916
MS	23%	$1,418
LA	23%	$1,519
NM	23%	$1,557
AR	23%	$1,993
TX	22%	$1,694
FL	22%	$1,548
WY	22%	$1,244
AK	21%	$1,023
TN	20%	$1,043
ND	18%	$1,211
SD	17%	$ 982
WV	17%	$1,535

Source: *The Impact of Eliminating the State and Local Tax Deduction*, (based on 2014 IRS data), Government Finance Officers Association.

Indirect Changes of TCJA on Tax Incentives to Purchase and Own a Home. As discussed above, the direct changes to the homeownership tax incentives were either serious and potentially costly, or of little or no meaning, depending on which region of the country one's home is located. This is not true of the indirect changes, which may be harder to immediately detect, but are nevertheless present for a large number of current and prospective homeowners.

These indirect changes were mostly[13] brought about by the TCJA's near doubling of the standard deduction, which is a major feature of the architecture of the current U.S. income tax system.

The Enigma of the Standard Deduction. The standard deduction reduces some of the complexity of the tax system, and can ease recordkeeping burdens, but it also can eviscerate the incentive value of itemized deductions that are meant to encourage certain behavior, such as purchasing and owning a home. To fully appreciate this conundrum, it helps to take a look at the history of our modern tax system. In 1913, Congress and the President enacted the income tax. The original tax law provided for both a deduction for interest paid and for state and local taxes paid (including for property taxes). These two deductions, plus the deduction for charitable contributions, which was added to the tax law in 1917, together comprise the majority of itemized deductions that are claimed each year.

For many years, the tax law provided that taxpayers who paid interest, state and local taxes, and/or made charitable contributions, could take a deduction for them. A few other deductions, such as for casualty and theft losses or for medical expenses, were also allowed. However, to qualify for these deductions, taxpayers actually had to incur these expenses and keep track of them.

This changed in 1944, when Congress decided to simplify the tax law by enacting the standard deduction. Legislative history (both original and subsequent) shows that the standard deduction was based on a composite basket of typical deductions that taxpayers claimed, including the MID, taxes paid, charitable contributions made, and so forth. The simplification came about by Congress deeming that all individuals were to receive a certain amount of generic deductions, represented by the standard deduction. Taxpayers claiming the standard deduction did not need to prove that any amounts were actually paid in order to take the standard deduction. Congress simply designated that all taxpayers could claim the standard deduction whether they made the deductible expenditures or not.

In enacting the standard deduction, Congress did not modify the deductions themselves. Rather, taxpayers who paid deductible expenditures exceeding the standard deduction were allowed to claim the actual amounts as what were (from then on) called itemized deductions. Taxpayers with deductions totaling an amount below the standard deduction threshold could simply claim the standard amount and not worry about even keeping track of what was actually paid. This was a big step toward simplifying the tax lives of millions of American taxpayers.

What is often not recognized today is that the standard deduction represents a tax giveaway for virtually all taxpayers who claim it. This is because if a taxpayer has deductions in excess of the standard deduction, he or she may claim the higher amount. But those who have actual deductions less than the standard are given the benefit of the standard deduction amount whether or not they actually incurred the expenses. Thus, the giveaway equals a range of as much as the standard deduction for taxpayers who have absolutely no deductions, on the high end, to as little as $1 for taxpayers whose actual deductions come just $1 short of the standard deduction amount, on the low end.

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[13] *To the extent that the TCJA repealed or limited certain itemized deductions, including the SALT deduction, this indirect effect is exacerbated.*

For example, assume a married couple's deductible amounts for state and local tax, mortgage interest, and charitable contributions for 2018 total $22,000. With the standard deduction for a couple at $24,000 for 2018, this family would be receiving an extra tax deduction for $2,000 in expenditures they never made. If they were in the 24 percent bracket, this would amount to a $480 tax "freebie" ($2,000 excess x 24%). Suppose another couple had just $4,000 of state and local taxes, but no mortgage interest and no charitable contributions. This family would also get to claim the standard deduction of $24,000, for an extra deduction subsidy of $20,000 ($24,000-$4,000), which would be worth $4,800, assuming they were also in the 24 percent tax bracket ($20,000 x 24%).

The point is that whether a taxpayer is being subsidized a little bit (as with the first couple), or a lot (as with the second couple), the actual itemized deductions of each couple have no incentive value. In other words, each couple has the same tax liability whether they rent or own their home because the MID and SALT deductions have no effect because the standard deduction was higher than their itemized deductions.

This effect is not new. Taxpayers with actual itemized deductions below the standard deduction level always found their itemized deductions to be meaningless. However, what is new is the unprecedented jump in the standard deduction included in the TCJA. For tax year 2017, before the changes made by the new tax reform act took effect, about 32 percent of tax filers itemized their deductions[14]. In other words, almost one in three taxpayers could access the tax benefits of purchasing a home. Further, it was often the act of purchasing that first home that put a tax filer's total itemized deductions over the standard deduction amount, thereby giving meaning to the incentives of the MID and property tax deduction, which acted to reduce the home buyer's tax liability and provide a tax incentive to own rather than rent.

However, for tax year 2018, when the higher standard deduction amounts are in effect, only about 13 percent, or about one in eight taxpayers, are expected to elect to itemize their deductions[15]. This means, of course, that seven of eight taxpayers will claim the standard deduction and will find no incentive effect of the MID and property tax deduction. While some few of these who are not homeowners will find that purchasing a home would increase their itemized deductions to a level higher than the standard deduction and thus enter the range where the MID and property tax could lower their tax liability vis-à-vis renting, the numbers who do so will be very low as compared to those who could enjoy these incentives before the tax reform law changes went into effect.[16]

Reduction in Tax Expenditures for Home Ownership Tax Incentives. There is at least one way to demonstrate the approximate degree of the direct and indirect reductions in the amount of tax incentive dollars projected to flow into homeownership in the wake of the enactment of the Tax Cuts and Jobs Act. This is to compare estimates of MID and SALT deductions provided by the staff of the Joint Committee on Taxation in the estimated tax expenditure report for 2017, the year before the changes took effect, with the report for 2018, when the changes were in full effect.

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[14] *Overview of the Federal Tax System and Policy Considerations Related to Tax Reform, Joint Committee on Taxation, JCX-36-17, July 14, 2017, page 4.*

[15] *Overview of the Federal Tax System as in Effect for 2018, Joint Committee on Taxation, JCX-3-18, February 7, 2018, page 4.*

[16] *It is important to note that the Tax Cuts and Jobs Act will, in many cases, lead to a lower tax liability for those who will no longer be itemizing their deductions. This is especially true if the tax filer can claim the newly-increased credit for children under age 17. However, that lower tax liability will often be available whether the filer owns a home or rents one and the incentive effect of the tax benefits of homeownership will be decreased or nullified.*

For example, on Table 3 of the latest report, dated October 14, 2018[17], we see the estimated number of tax returns expected to claim the MID and the estimated total amount deducted on those returns. The table projects that 13,728,000 returns will claim a total of just over $25 billion in mortgage interest deduction for 2018.

Table 3 also shows the estimated number of tax returns expected to claim SALT deductions and the projected total amount deducted. Here we see 16,577,000 returns are expected to claim SALT deductions totaling $20.2 billion.

However, in the similar table published in the previous tax expenditure estimate report dated January 30, 2017[18], before the new tax law had been passed and signed into law, the amounts shown for MID for 2017 tell a very different story. This Table 3 shows an estimated total tax returns claiming the MID of 33,856,000 for a total deduction amount of $64.9 billion.

And for the SALT deduction for 2017, the table shows 43,274,000 taxpayers claiming a total of $69.8 billion.

In other words, the number of tax filers claiming the MID is projected to drop by over 20 million, or 60 percent. And the amount of the deduction is estimated to fall by almost $40 billion, or 62 percent. And the amount of SALT deduction claimants is projected to fall by almost 27 million (a drop of 62 percent) and the amount of the deduction to drop by nearly $50 billion, a reduction of 71 percent.

These estimates make it clear that the Tax Cuts and Jobs Act punched a huge hole in the amount of federal tax dollars being steered toward incentivizing homeownership.

Conclusion

While federal tax policies designed to reduce the cost of purchasing and owning a home by making that home more affordable are still present in the current law, they have been significantly reduced and are a fraction of what they were just one year before. Such policies can still be considered benefits for those who are fortunate enough to still be able to enjoy them. However, for the large number of current and would-be middle-class homeowners who are no longer able to claim these benefits, the changes in the Tax Cuts and Jobs Act amounts to a significant barrier to homeownership.

These tax changes, combined with significant challenges in the areas of affordability, lack of adequate inventory, and rising student loan debt, mean that purchasing and owning a home has become significantly more difficult for many middle-class families, and particularly those who reside in high-cost areas of the Nation.

[17] *Estimates of Federal Tax Expenditures for Fiscal Years 2018-2022, Joint Committee on Taxation, October 4, 2018 (JCX-81-18)*
[18] *Estimates of Federal Tax Expenditures for Fiscal Years 2016-2020, Joint Committee on Taxation, January 30, 2017 (JCX-3-17)*