

How Tax Reform Can Destroy the Tax Benefits of Home Ownership by Stealth



Leading tax reform plans promise to
leave the mortgage interest
deduction largely unchanged



But this is not
the case.

In reality, the tax benefit of the MID would be drastically cut for most taxpayers under these plans



Let's compare 3 actual tax reform plans that have been proposed by major figures in each party



Dave Camp's Tax Reform Act of 2014



“The [mortgage interest deduction] provision would preserve a substantial tax benefit for homeownership without affecting most taxpayers . . . And for those taxpayers who would continue to itemize, no existing mortgage would be affected by this provision, and 95 percent of future mortgages are also expected to be unaffected.”

**Tax Reform Act of 2014 Discussion Draft
Section-by-Section Summary, p. 19.**

Ron Wyden Tax Reform Plan (2011)

“Wyden-Coats retains many of the most commonly claimed individual tax credits and deductions, **including deductions for mortgage interest** and charitable contributions, credits for children and earned income.”

Summary of The Bipartisan Tax Fairness and Simplification Act of 2011.



House Republican Tax Reform “Blueprint” (2016)



“The Blueprint will preserve a mortgage interest deduction for homeowners. . . For those taxpayers who continue to itemize deductions, no existing mortgage will be affected by any changes in the tax code. Similarly, no changes will affect re-financings of existing mortgages.”

A Better Way: A Pro-Growth Tax Code For All Americans.

Technically, they are correct!

- The tax reform plans highlighted do not repeal the mortgage interest deduction (MID).
 - In fact, the Wyden plan and the Blueprint do not touch MID at all.
- But in many cases, these plans would not only limit or eliminate the ability to claim the MID, but **would also largely nullify the tax benefits of homeownership**.

Example – Meet Barbara Buyer



- Barbara is 33, single, and a renter paying \$1,000 per month in Colorado.
- She earns \$65,000/year and buys a condo for \$263,000, making a 5% down payment.
- Her monthly P&I payment would be \$1,193, before the tax benefits.
- Under current law, her 2016 tax benefits of home ownership would be \$3,325 or \$277/month.*

*assumes 30-year fixed rate mortgage loan of \$249,850 at 4.0%

Tax Reform Could **Greatly Limit Tax Advantages** of Buying over Renting . . .

Here are Barbara's tax benefits of homeownership under the three tax reform plans:

Tax Plan	Tax Benefit from Owning a Home
Camp	\$91
Wyden	\$650
Blueprint	\$166
Current Law	\$3,325

Why Would Tax Benefits of Home Ownership Evaporate Under Tax Reform?



Answer – Because of a One-Two Punch of:

1. Big increase in standard deduction,
and
2. Repeal of state & local tax deduction (in case of Camp plan & Blueprint).

Key Issue – The Standard Deduction



- Standard deduction is like a gift from Uncle Sam – available regardless of actual expenses.
- Taxpayers itemize only if actual expenses exceed standard deduction.
- Only about 1/3 of taxpayers itemize.
- For 2016, standard deduction is **\$6,300 for singles** and **\$12,600 for joint returns**.

What Happens If Standard Deduction Significantly Goes Up?

- Itemized deductions become less relevant and fewer people claim them.
- If one or more of the major itemized deductions is repealed (such as deduction for state and local taxes), effect is compounded.
- The result is a simpler tax system, but one where tax incentives of home ownership could evaporate even while taxes are not necessarily being reduced.

Barbara Buyer's Itemized Deductions Under Current Law

Deduction	Rents	Buys
Mortgage Interest	\$0	\$9,914
Real Estate Taxes	\$0	\$1,686
Mortgage Insurance Premium	\$0	\$1,999
Other State/Local Taxes	\$3,250	\$3,250
Charitable Contributions	\$2,750	\$2,750
Total	\$6,000	\$19,599
<i>Standard Deduction</i>	<i>\$6,300</i>	<i>\$6,300</i>
Higher of Total or Standard Deduction?	\$6,300	\$19,599
Tax Benefits of Homeownership =	\$3,325	

Barbara Buyer's Itemized Deductions Under Camp Plan

Deduction	Rents	Buys
Mortgage Interest	\$0	\$9,914
Real Estate Taxes	\$0	\$0
Mortgage Insurance Premium	\$0	\$0
Other State/Local Taxes	\$0	\$0
Charitable Contributions	\$1,450	\$1,450
Total	\$1,450	\$11,364
<i>Standard Deduction</i>	<i>\$11,000</i>	<i>\$11,000</i>
Higher of Total or Standard Deduction?	\$11,000	\$11,364
Tax Benefits of Homeownership =		\$91

Thus, there is very little tax advantage for buying over renting.

Barbara Buyer's Itemized Deductions Under Wyden Plan

Deduction	Rents	Buys
Mortgage Interest	\$0	\$9,914
Real Estate Taxes	\$0	\$1,686
Mortgage Insurance Premium	\$0	\$0
Other State/Local Taxes	\$3,250	\$3,250
Charitable Contributions	\$2,750	\$2,750
Total	\$6,000	\$17,600
<i>Standard Deduction</i>	<i>\$15,000</i>	<i>\$15,000</i>
Higher of Total or Standard Deduction?	\$15,000	\$17,600
Tax Benefits of Homeownership =		\$650

Thus, there is still little tax advantage for buying over renting.

Barbara Buyer's Itemized Deductions Under **Blueprint**

Deduction	Rents	Buys
Mortgage Interest	\$0	\$9,914
Real Estate Taxes	\$0	\$0
Mortgage Insurance Premium	\$0	\$0
Other State/Local Taxes	\$0	\$0
Charitable Contributions	\$2,750	\$2,750
Total	\$2,750	\$12,664
<i>Standard Deduction</i>	<i>\$12,000</i>	<i>\$12,000</i>
Higher of Total or Standard Deduction?	\$12,000	\$12,664
Tax Benefits of Homeownership =		
		\$166

Again, there is even less tax advantage for buying over renting.

Now that we have seen how tax reform could affect Barbara, let's take a look at some other homeowners to see the effect on them.

Young Couple with One Child - UT

Income = \$ 61,000

Mortgage = \$ 163,000 *4.5% (2nd year)



Deductions	Amount
MID	\$7,160
Real Estate Taxes	\$1,189
Mortgage Insurance	\$1,304
Other State & Local Taxes	\$2,250
Charitable Contributions	\$6,100
Medical Expense Deduction	\$2,500

Tax Benefits of Homeownership	
Current Law	\$1,185
Camp Plan	\$0
Wyden Plan	\$0
Blueprint	\$0

2016 Tax Liability	
Current Law	\$2,325
Camp Plan	\$2,400
Wyden Plan	\$1,828
Blueprint	\$2,940

Middle-Aged Family of Four - VA

Income = \$ 260,000

Mortgage = \$ 500,000 *4% (4th year)

Deductions	Amount
MID	\$18,719
Real Estate Taxes	\$7,848
Mortgage Insurance	\$0
Other State & Local Taxes	\$14,300
Charitable Contributions	\$9,000
Medical Expense Deduction	\$0



Tax Benefits of Homeownership	
Current Law	\$7,439
Camp Plan	\$130
Wyden Plan	\$6,953
Blueprint	\$1,228

2016 Tax Liability	
Current Law	\$41,287
Camp Plan	\$45,075
Wyden Plan	\$46,377
Blueprint	\$45,348

Single Mom with 2 Kids - CA

Income = \$ 135,000

Mortgage = \$ 340,000 *3.75% (3rd year)

Deductions	Amount
MID	\$12,157
Real Estate Taxes	\$4,081
Mortgage Insurance	\$0
Other State & Local Taxes	\$9,655
Charitable Contributions	\$4,000
Medical Expense Deduction	\$0



Tax Benefits of Homeownership	
Current Law	\$4,059
Camp Plan	\$615
Wyden Plan	\$1,849
Blueprint	\$0

2016 Tax Liability	
Current Law	\$16,537
Camp Plan	\$22,738
Wyden Plan	\$16,614
Blueprint	\$21,198

Newly-Retired Couple Working Part-Time, Just Downsized – OH

Income = \$ 95,000

Mortgage = \$ 180,000 *4% (1st Year)

Deductions	Amount
MID	\$7,142
Real Estate Taxes	\$5,580
Mortgage Insurance	\$0
Other State & Local Taxes	\$3,250
Charitable Contributions	\$3,800
Medical Expense Deduction	\$1,875



Tax Benefits of Homeownership	
Current Law	\$2,176
Camp Plan	\$0
Wyden Plan	\$0
Blueprint	\$0

2016 Tax Liability	
Current Law	\$8,860
Camp Plan	\$7,300
Wyden Plan	\$8,535
Blueprint	\$8,520

Widower, Mortgage Paid Off – WI

Income = \$ 46,000

Mortgage = paid off

Deductions	Amount
MID	\$0
Real Estate Taxes	\$2,940
Mortgage Insurance	\$0
Other State & Local Taxes	\$2,300
Charitable Contributions	\$2,000
Medical Expense Deduction	\$10,950



Tax Benefits of Homeownership	
Current Law	\$441
Camp Plan	\$0
Wyden Plan	\$441
Blueprint	\$0

2016 Tax Liability	
Current Law	3,100
Camp Plan	\$3,500
Wyden Plan	564
Blueprint	\$4,080

Summary

Tax Benefits of Owning a Home				
Homeowner	Current Law	Camp Plan	Wyden Plan	Blueprint
Young Single	\$3,325	\$91	\$650	\$166
Couple w/ Child	\$1,185	\$0	\$0	\$0
Family of Four	\$7,439	\$130	\$6,953	\$1,228
Single Mom	\$4,059	\$615	\$1,849	\$0
Retired Couple	\$2,176	\$0	\$0	\$0
Widower	\$441	\$0	\$441	\$0

2016 Tax Liability				
Homeowner	Current Law	Camp Plan	Wyden Plan	Blueprint
Young Single	\$6,109	\$7,762	\$7,088	\$8,190
Couple w/ Child	\$2,325	\$2,400	\$1,828	\$2,940
Family of Four	\$41,287	\$45,075	\$46,377	\$45,348
Single Mom	\$16,537	\$22,738	\$16,614	\$21,198
Retired Couple	\$8,860	\$7,300	\$8,535	\$8,520
Widower	\$3,100	\$3,500	\$3,564	\$4,080