



A recent editorial in the Washington Post is another discussion about changing tax policy relating to the mortgage interest deduction (MID). Although the writer asserts that the “vast majority” of those itemizing deductions are in “upper brackets” and therefore MID benefits primarily the rich, 65% of families who claim the MID earn less than \$100,000 a year. That’s solidly middle class in Maryland, where the 2010 average home price was over \$290,000.

More disturbing, however, is failing to recognize the devastating effect of significant changes to the MID rules. It hardly takes an economist to realize that loss of the MID would have a profoundly negative effect on home values, as much as 15 per cent according to industry projections (even higher in Maryland, whose residents rank among the highest users of the MID), as buyers recognize that their carrying costs would increase under the proposal.

And yes, the possibilities are “scary.” The housing market has been buffeted for too long not only by difficulties in obtaining financing and excessive foreclosures, but by a wary public uncertain about the future, often because of what they read, even though interest rates have been at historic lows for several years. It is naïve to think that proposals to devalue the benefits of homeownership would not have a significant effect on a market just beginning to stabilize.

Homeowners already pay a disproportionate share of federal income taxes. Our national homeownership rate is 69.6 per cent, but homeowners pay 80 to 90 per cent of federal income taxes. That would most certainly rise with a reduction in the MID, to as high as 95 per cent if it is eliminated.

Our federal tax code has been the stuff of jokes—and frustration—for decades because of its complexity. It is simplistic, as well as bad public policy, to argue that reducing or eliminating its only significant benefit to middle class taxpayers will somehow alleviate the problems that have resulted from years of fiscal irresponsibility.

Cathy A Werner
President