
Tax Incentives for Owner-Occupied Housing

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Getting More from Tax Incentives

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Tax subsidies for owner-occupied housing

	<u>JCT estimates</u>
■ Tax-deductible mortgage interest	\$67.0 billion in 2008
■ Deductible state and local property taxes	\$24.6 billion in 2008
■ Untaxed return on housing equity	
■ Light capital gains taxation	\$16.8 billion in 2008
■ Total	

Tax subsidies for owner-occupied housing

	<u>Poterba & Sinai (2008)</u>
■ Tax-deductible mortgage interest	\$62.0 billion in 2003
■ Deductible state and local property taxes	\$23.8 billion in 2003
■ Untaxed return on housing equity	
■ Light capital gains taxation	
■ Total	\$331 billion in 2003

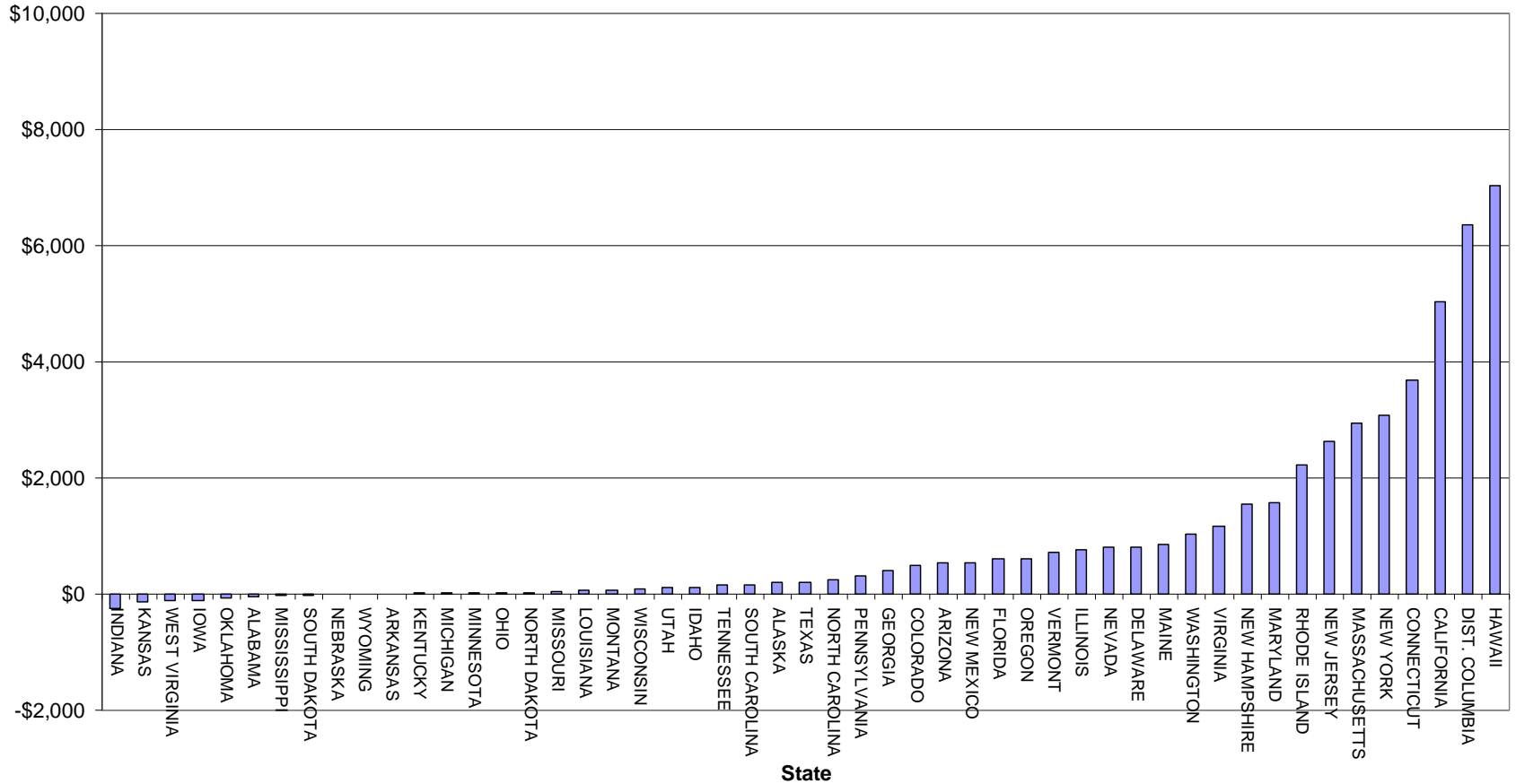
Source: Poterba & Sinai (2008), using data from the 2004 Survey of Consumer Finances

Tax savings from favorable treatment of owner-occupied housing

Age of Household Head	Annual Household Income					
	<40K	40-75K	75-125K	125-250K	250+	All
	Haig-Simons Tax Base with Standard Deduction					
25-35	1,023	1,640	4,639	8,147	19,141	3,059
35-50	1,365	2,402	4,718	10,136	27,563	5,378
50-65	1,565	3,194	4,923	10,133	30,114	6,307
> 65	1,252	4,331	4,911	10,878	26,840	3,369
All	1,322	2,859	4,796	10,088	28,422	4,869

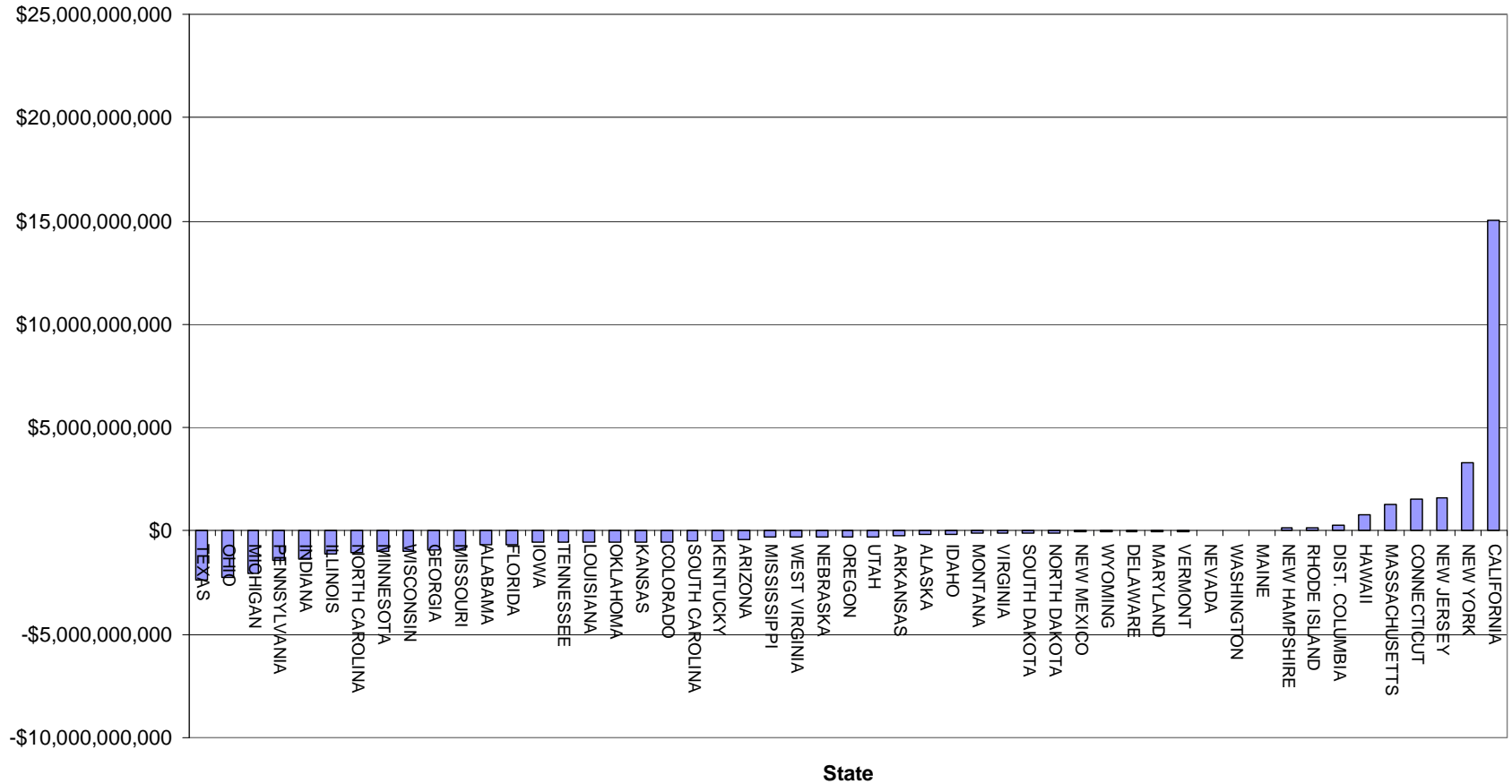
Source: Poterba & Sinai (2008), using data from the 2004 Survey of Consumer Finances

**Figure 3: Value of Net Tax Benefits per Owner-Occupied Housing Unit
(Proportional Financing)**



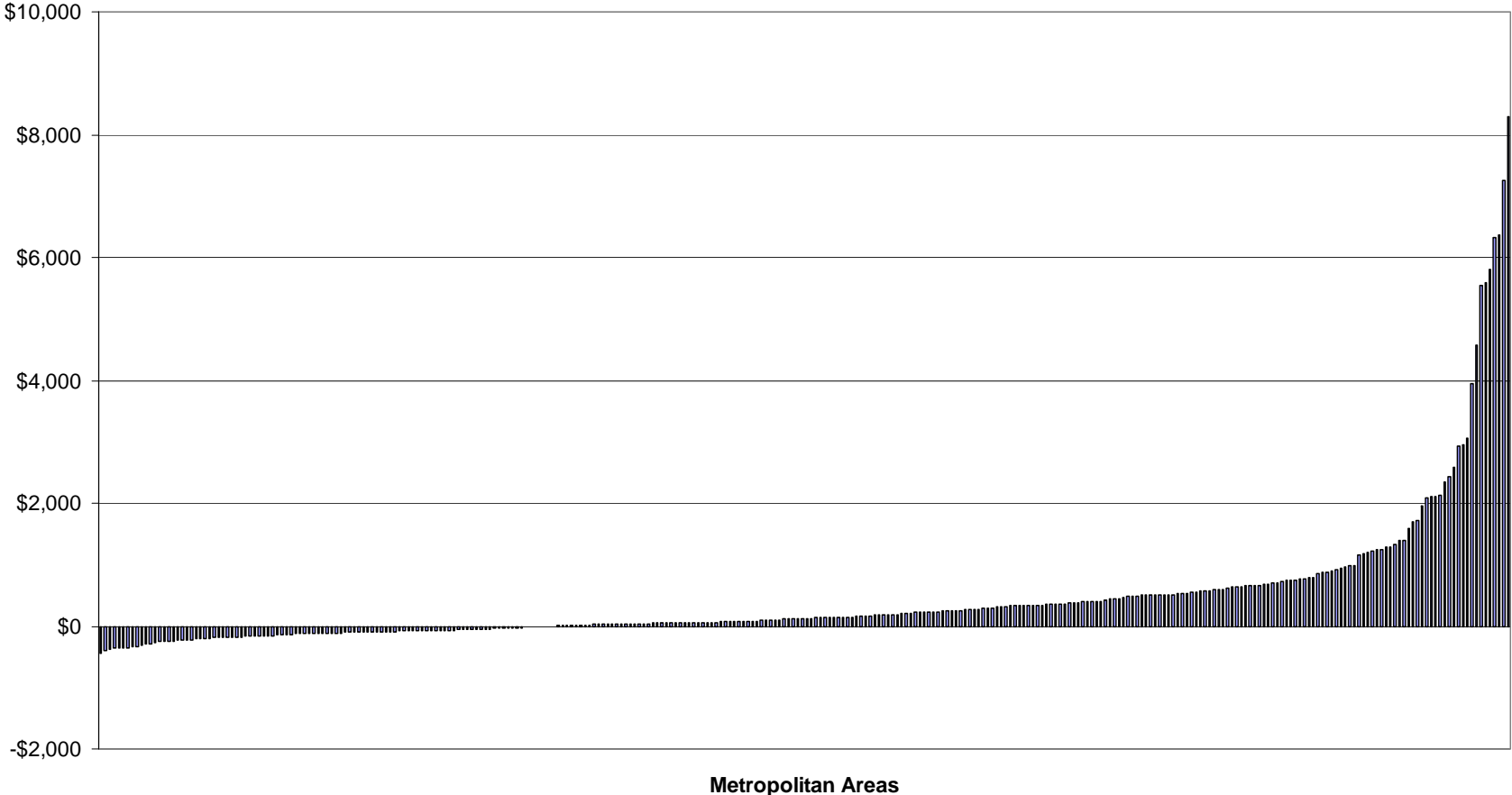
Source: Gyourko & Sinai (2003), using data from the 1990 Census

**Figure 4: Net Transfer by State
(Proportional Financing)**



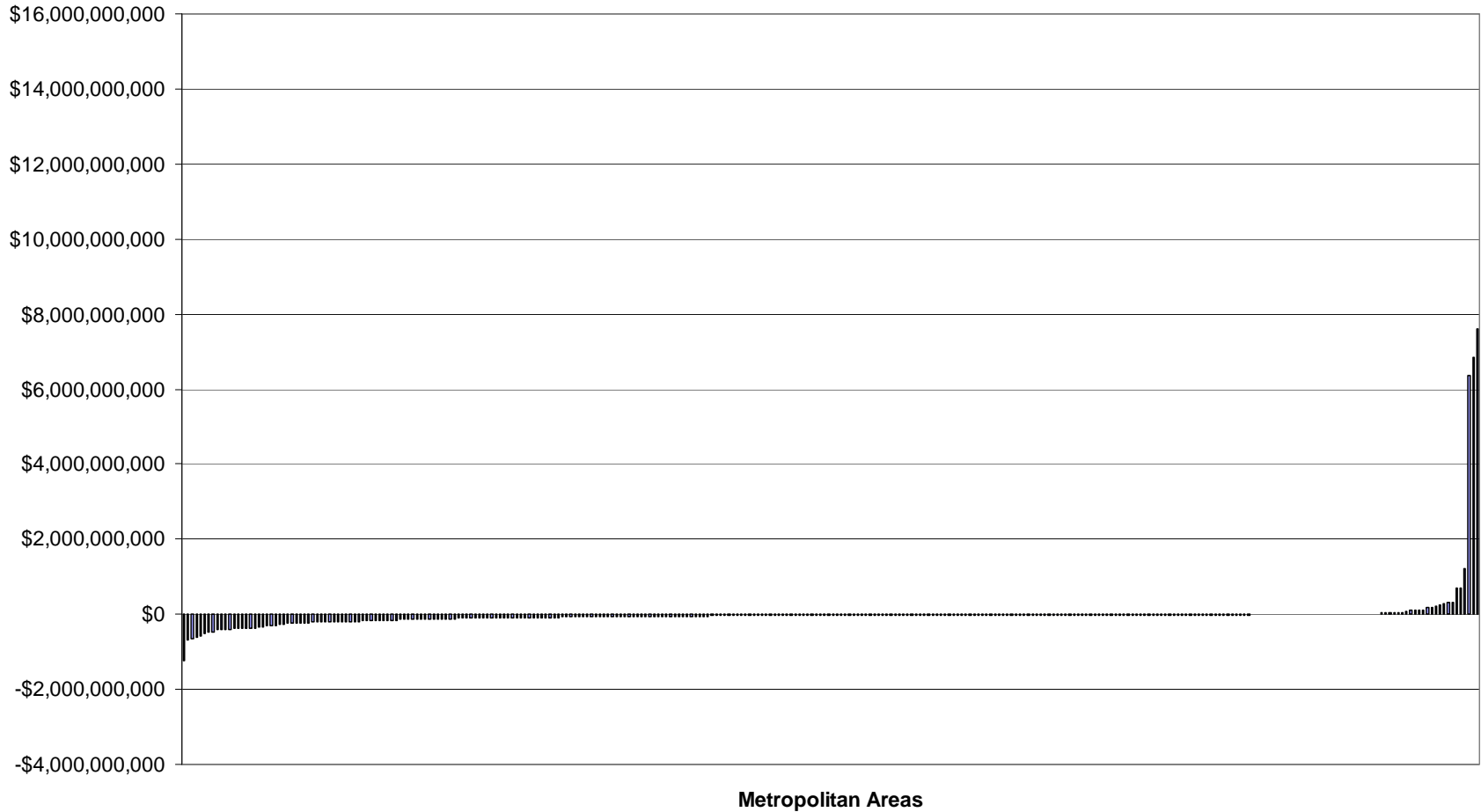
Source: Gyourko & Sinai (2003), using data from the 1990 Census

Figure 7: Value of Net Tax Benefits Per Owner-Occupied Housing Unit, by Metropolitan Area (Proportional Financing)



Source: Gyourko & Sinai (2003), using data from the 1990 Census

Figure 8: Net Transfers, by Metropolitan Area (Proportional Financing)



Source: Gyourko & Sinai (2003), using data from the 1990 Census

Table 4: Benefits Per Owner and Per Household, Select CBSA's above median pop, 1999

Top 20 areas by per owner subsidy, 1999

<u>CBSA Name</u>	<u>Subsidy Per Owner Occupied Unit</u>	<u>Subsidy Per Household</u>
	<u>1999</u>	<u>1999</u>
San Francisco-San Mateo-Redwood City, CA Metropolitan Division	\$26,385	\$13,327
San Jose-Sunnyvale-Santa Clara, CA Metropolitan Statistical Area	\$24,629	\$14,874
Bridgeport-Stamford-Norwalk, CT Metropolitan Statistical Area	\$17,418	\$12,075
Santa Barbara-Santa Maria-Goleta, CA Metropolitan Statistical Area	\$16,759	\$9,593
Suffolk County-Nassau County, NY Metropolitan Division	\$15,655	\$12,520
Oakland-Fremont-Hayward, CA Metropolitan Division	\$15,151	\$9,189
New York-Wayne-White Plains, NY-NJ Metropolitan Division	\$14,776	\$6,123
Santa Ana-Anaheim-Irvine, CA Metropolitan Division	\$14,593	\$8,953
Salinas, CA Metropolitan Statistical Area	\$14,554	\$7,994
Honolulu, HI Metropolitan Statistical Area	\$14,115	\$7,944
Santa Rosa-Petaluma, CA Metropolitan Statistical Area	\$13,030	\$8,338
Oxnard-Thousand Oaks-Ventura, CA Metropolitan Statistical Area	\$12,895	\$8,734
Cambridge-Newton-Framingham, MA Metropolitan Division	\$12,643	\$7,804
Los Angeles-Long Beach-Glendale, CA Metropolitan Division	\$12,096	\$5,845
Boulder, CO Metropolitan Statistical Area	\$11,855	\$7,719
San Diego-Carlsbad-San Marcos, CA Metropolitan Statistical Area	\$11,641	\$6,476
Bethesda-Frederick-Gaithersburg, MD Metropolitan Division	\$11,223	\$7,894
Boston-Quincy, MA Metropolitan Division	\$10,941	\$6,389
Newark-Union, NJ-PA Metropolitan Division	\$10,870	\$6,823
Lake County-Kenosha County, IL-WI Metropolitan Division	\$10,700	\$8,127

Source: Gyourko & Sinai (2004), using data from the 2000 Census

Tax increase from eliminating the mortgage interest deduction

Age of Household Head	Annual Household Income					
	<40K	40-75K	75-125K	125-250K	250+	All
	Eliminate Mortgage Interest Deduction, No Portfolio Adjustment					
25-35	219	570	1,793	3,467	7,736	1,141
35-50	250	745	1,522	3,549	6,582	1,646
50-65	160	490	1,028	2,108	5,780	1,196
> 65	5	149	312	955	1,413	149
All	101	535	1,256	2,704	5,444	1,065
	Eliminate Mortgage Interest Deduction, Allowing for Portfolio Substitution Using Non-Retirement Financial Assets					
25-35	213	528	1,683	3,169	5,654	1,046
35-50	237	693	1,374	3,051	5,119	1,432
50-65	134	427	881	1,777	4,433	986
> 65	1	115	189	701	1,046	105
All	90	485	1,117	2,309	4,184	910

Source: Poterba & Sinai (2008), using data from the 2004 Survey of Consumer Finances

Fraction of Outstanding Deductible Mortgage Debt that Homeowners Could Replace by Liquidating Other Assets

Age of Household Head	Annual Household Income					
	<40K	40-75K	75-125K	125-250K	250+	All
	Liquidation of liquid financial assets					
25-35	2.2%	9.9%	9.9%	20.3%	42.3%	11.1%
35-50	5.7	9.0	11.0	17.9	37.0	14.8
50-65	11.1	11.8	17.9	17.8	31.1	19.2
> 65	18.9	18.7	32.6	33.9	50.1	26.2
All	8.9	10.4	13.7	18.6	34.6	16.2

Source: Poterba & Sinai (2008), using data from the 2004 Survey of Consumer Finances

Last-dollar user cost on owner-occupied housing

Age of Household Head	Annual Household Income					
	<40K	40-75K	75-125K	125-250K	250+	All
	Current law					
25-35	0.066	0.062	0.056	0.052	0.048	0.060
35-50	0.066	0.061	0.056	0.052	0.048	0.058
50-65	0.066	0.059	0.056	0.052	0.048	0.058
> 65	0.071	0.059	0.057	0.053	0.049	0.065
All	0.068	0.060	0.056	0.052	0.048	0.060
	Repeal of Mortgage Interest Deduction, Full Portfolio Adjustment					
25-35	0.068	0.066	0.061	0.058	0.051	0.064
35-50	0.068	0.064	0.060	0.056	0.050	0.061
50-65	0.067	0.061	0.058	0.054	0.050	0.060
> 65	0.071	0.059	0.057	0.054	0.049	0.066
All	0.069	0.062	0.059	0.055	0.050	0.062

Source: Poterba & Sinai (2008), using data from the 2004 Survey of Consumer Finances