Coming Home: Providing a Pathway to Housing for All

Introduction

Whether renting or owning,\(^1\) housing is often the costliest expense a person has each month\(^2\) and has a substantial impact on financial security. Someone with excessively high housing costs is likely to struggle with financial hardships, like difficulties saving for an emergency, paying off student loans or even paying for basic living expenses. And while homeownership may not be right for everyone, under the right circumstances, owning a home has powerful wealth-building potential.

Unfortunately, many Americans are housing-cost burdened, which is defined as a household spending more than 30% of its income on housing. A worrying number of people are also severely-cost burdened, which is when housing costs account for more than 50% of income. This is especially the case for low-income families and households of color that deal with a greater level of financial stress, as well as larger obstacles to building wealth.

A substantial wealth gap exists between White households compared to Black and Latino households and greater barriers to homeownership that communities of color face have helped, in part, to create and maintain this gap. Given this, finding ways to make housing more affordable and to increase access to homeownership is essential for the financial futures of these families and all the opportunities that come with greater stability.

In *A Downpayment on the Divide: Steps to Ease Racial Inequality in Homeownership*,\(^3\) Prosperity Now examines the interplay between homeownership and the racial wealth gap and how increasing access to homeownership for communities of color could reduce this divide. Solutions outlined in the report include increasing access to quality mortgage credit, protecting households of color from lending discrimination through enforcement of fair lending standards and the preservation of consumer-focused agencies like the Consumer Financial Protection Bureau (CFPB) and reforming the federal income tax code.

While all of these are important and could play a role in narrowing the racial wealth divide—indeed, pursuing all of these solutions would have a greater impact than adopting just one—this proposal is focused on further fleshing out the last piece, restructuring the tax code. It describes with more
specificity exactly how housing-related deductions in the tax code could be improved to benefit working families and narrow the racial wealth divide.

Many of the deductions and credits in the tax code disproportionately help the wealthy while providing little support for low-income families with the most financial insecurity—and the mortgage interest deduction (MID) and property tax deductions (PTD) are some of the biggest offenders. Indeed, as currently structured, MID and PTD target those with the fewest needs rather than helping people become homeowners who would otherwise struggle to get on this path. The Tax Cuts and Jobs Act (TCJA) that was passed in 2017 lowered the value of the MID and PTD for most taxpayers by reducing what can be claimed for these deductions. Even with the changes, however, they are still disproportionately beneficial to those with the most wealth.\(^4\)

This proposal recommends replacing the MID and PTD with more inclusive and equitable tax credits and matched savings programs. The result is a four-part proposal that aims to reduce housing-cost burdens for renters and homeowners through their lifetimes and opens new opportunities for working families to build wealth and invest in the future.

Geared exclusively to renters, the first recommendation is a low-income refundable renters’ credit that can be taken at tax time annually. The second recommendation is a downpayment-builder credit that helps people save for pre-home purchase costs by augmenting personal savings with a government match. The third policy helps alleviate the strain on finances after a house purchase through a permanent first-time homeowner’s tax credit. Finally, the last recommendation helps defray the ongoing costs of homeownership through an annual tax credit.

### The Current State of Housing and Homeownership

**FAMILIES ARE SPENDING A SIGNIFICANT AMOUNT OF INCOME ON HOUSING**

According to Harvard University’s Joint Center for Housing Studies (JCHS),\(^5\) since the 1960s, the shares of both renters and homeowners experiencing significant increases in housing-cost burdens have increased substantially as rising housing costs consistently outpaced gains in income.\(^6\)

![The Sharp Divergence in Housing Costs and Incomes Has Fueled a Long-Term Increase in Cost-Burdened Renters](chart.png)


A cost burdened family is not only at greater risk of eviction or foreclosure if they face job loss, reduced income or a big expense like an emergency medical bill or car repair,\(^7\) they are also
spending more than they should on one household expense instead of paying off other debts or saving, which would increase their financial security.

Specifically, when adjusted for inflation, between 1960 and 2016, the percentage of cost-burdened renters doubled from just under 24% to approximately 47.5%. Median rent payments increased by 61% during this time frame, while renter income only grew by 5%. Indeed, rent prices are around 30% more expensive than at the peak in the early 2000s, which is a historic high.9 While not as dramatic, there were also more rapid increases in home values over time compared to income. During the same time frame, median home values rose by 112% while median owner income increased at less than half that rate (50%).9 By 2016, approximately 38 million households—renters and owners alike—were cost burdened.10

THERE ARE MAJOR HOUSING-COST BURDENS FOR LOW-INCOME HOUSEHOLDS

Not surprisingly, low-income households are particularly burdened. According to the United States Department of Housing and Urban Development’s most recent Worst Case Housing report, the number of households with substantial housing needs grew by 66% between 2001 and 2015.11 A household with worst case needs is defined as a very low-income renter (at 50% of area median income [AMI] or less) who receives no government housing assistance and spends more than half of their income on rent, lives in severely inadequate conditions, or both.

In addition, JCHS estimates that 80% of renters making less than $30,000 annually were cost burdened in 2016, while about 63% of homeowners at the same income level were burdened. For those low-income homeowners with a mortgage (have not paid off their home yet or did not purchase outright), over 90% are cost burdened.12

The 2008 housing and financial crisis also exacerbated burdens for households with low incomes. According to recent research by the Federal Reserve, low-and moderate-income families not only lost a greater percentage of their wealth during the downturn, the rate of recovery from the fallout is much weaker for these households. In fact, the Fed discovered that in 2016, the top 10% of earners were the only group to have more wealth than in 2007 (the year before the crisis), meaning wealth is highly concentrated at the top.13

COMMUNITIES OF COLOR ALSO CARRY DISPROPORTIONATE HOUSING COST BURDENS

Like low-income families, households of color face a disproportionate amount of hardship. Prosperity Now’s Scorecard estimates that approximately 46% of White renters are cost burdened, while Black and Latino renters have rates that are more than 10 percentage points higher.14 Homeowners are less cost burdened than renters but they face challenges as well. Just over

By 2016, approximately 38 million households—renters and owners alike—were cost burdened.

According to the United States Department of Housing and Urban Development’s most recent Worst Case Housing report, the number of households with substantial housing needs grew by 66% between 2001 and 2015.

Households of Color Face Disproportionate Housing-Cost Burdens

Source: Prosperity Now Scorecard, 2017
a quarter of White homeowners are cost burdened and, like renters, the rates are approximately 10% higher for Black and Latino homeowners.\textsuperscript{15}

As for low-income households, the financial meltdown also took a greater toll on Black and Latino families and is proving harder to bounce back from than for White households. Between 2013 and 2016, Black and Latino households made some progress in real terms but this improvement was dwarfed by the raw wealth gains for White households. According to the Federal Reserve’s Survey of Consumer Finances (SCF), excluding durable goods like cars or furniture, from 2013, Black wealth rose from $1,700 to $3,400 and Latino wealth increased from $2,000 to $6,300, whereas White wealth climbed from $120,000 to $140,500 (not adjusted for inflation).\textsuperscript{16}

Eviction rates are also unevenly distributed across race and gender. Since 2008, Princeton sociologist Matthew Desmond has studied the impact of housing, poverty and eviction. In Milwaukee, for example, he found that roughly 1 in 33 male renters and 1 in 17 female renters in poor Black neighborhoods are evicted, compared to 1 in 134 male and 1 in 150 female renters in high-poverty White neighborhoods.\textsuperscript{17} This is not just true of Milwaukee. Similar patterns emerge when looking at eviction data across the country. A national survey on the prevalence of evictions found that Black households face the highest rates of eviction, even after controlling for education and income.\textsuperscript{18}

**HOMEOWNERSHIP CAN BE A POWERFUL WEALTH-BUILDING OPPORTUNITY.**

While homeownership is not the asset-building vehicle of choice for all households, if done safely and sustainably by including financial education and upholding consumer protections and fair lending standards (such as educating borrowers about the risks of predatory mortgage products), homeownership has the potential to meaningfully increase financial stability and wealth over the long-term.

In fact, a home is the most valuable asset for many households and its impact on wealth is larger for low-income families and households of color. For example, about a third of household wealth is generated through homeownership for White households, while for Black and Latino households, the percentage is more than 50%.\textsuperscript{19} The equity that builds up through monthly mortgage principal payments, appreciation and the tax breaks that come from owning a home make homeownership an attractive and sensible option for many.

One of the reasons homeownership is such an effective way to build wealth is because monthly mortgage payments act as a type of forced savings. Unlike a savings account, where making a deposit is voluntary, monthly mortgage payments must be made to avoid negative consequences, such as foreclosure. As a result, homeowners typically do not skip these payments unless extenuating circumstances give them little choice, like losing a job or experiencing other life events that strain household finances. People build equity in their home each time they make principal payments—or, put another way—each mortgage payment made increases family wealth.\textsuperscript{20}

In terms of dollars and cents, households that own their home are faring considerably better than families that rent, irrespective of race and income. The median net worth of homeowners in 2016 was approximately $200,000, an increase of more than $30,000 (15% greater) from 2013, while the median net worth of renters in 2016 was $5,200, a three hundred dollar decrease from three years prior.\textsuperscript{21} This is worth emphasizing. Not only do owners have significantly more wealth than renters but between 2013 and 2016, homeowners increased their overall wealth, while renters became poorer. On top of this, for a remarkably high percentage of families—roughly 30%—homes are their only source of wealth.\textsuperscript{22}

Looking at these numbers from a racial perspective also brings the value of homeownership into focus. According to calculations using Census Bureau Survey of Income and Program Participation (SIPP) data, the median net worth of Black homeowners is $99,840, compared to $120 for Black
While there are multiple reasons for the considerable wealth disparities between owners and renters, asset value and appreciation clearly account for some of this difference, with owners being much wealthier than renters.

THE POTENTIAL OF HOMEOWNERSHIP TO REDUCE THE RACIAL WEALTH DIVIDE

In terms of race, there are significant differences in homeownership rates. Rates for White people are close to 72%, while ownership rates for Black people and Latino people are approximately 30 percentage points lower.24

Creating Parity in the Homeownership Rate...

Increases Black household wealth by more than $32,000 amounting to a 31% decrease in the racial wealth gap

Increases Latino household wealth by more than $29,000 amounting to a 28% decrease in the racial wealth gap

Source: Institute on Assets and Social Policy, 2015

In fact, the homeownership rate for Black families is the same today as it was in 1968, at just over 40%.25 Before the housing crisis, homeownership rates for Black families were ticking upward. These gains disappeared after the crash and while White households also suffered from the fall-out of the implosion, the impact was less severe and the recovery was quicker (the Downpayment report explores in more detail the current and historical reasons for these inequities).

Data from the Racial Wealth Audit™ by the Institute on Assets and Social Policy (IASP) at Brandeis University highlights the impact of homeownership on these disparities. This project assesses how certain policies grow or shrink the divide and to what extent. The Audit discovered that when homeownership rates are similar across races, the racial wealth gap decreases by approximately 30%. Significant reductions also happen when homes appreciate at the same rate across races, particularly for Latino households, where the gap with White families closes by an astonishing 41%.26 These types of estimations show the value of achieving greater parity in homeownership across race.
How Reforming MID and PTD Increases Financial Stability and Access to Homeownership

To increase financial stability and make homeownership attainable for more households of color, new solutions are necessary to better address the barriers to homeownership and rising rent burdens for these families.

The recommendations in this proposal aim to reduce housing costs for working families by replacing the MID and PTD with a package of tax credits and matched savings programs that address housing costs. As mentioned in the introduction, there are reasons other than problems with the tax code that can account for racial housing inequities, including lack of access to affordable credit, predatory lending practices and unchecked discrimination. This proposal is focused on digging deeper into the specifics of how to reform the tax code but it is important to keep in mind that these other areas need to be addressed as well in order to achieve the most change.

The Impact of MID and PTD

MID AND PTD ARE COSTLY

The MID allows tax filers to deduct interest on up to $750,000 in home value, a reduction from the $1 million that was allowed before the enactment of the 2017 Tax Cuts and Jobs Act (TCJA). These changes only apply to homes purchased in December 2017 or later, meaning the law is not retroactive. Tax filers are allowed to deduct property taxes and the Act also placed a $10,000 cap on the amount of property taxes that can be deducted. Before passage, no such cap existed.

Together, these deductions cost taxpayers tens of billions of dollars each year and they are projected to cost billions more down the road. Estimates suggest that in Fiscal Year 2018, MID and PTD cost the federal government $52.6 billion,27 $5 billion more than the $47.7 billion the U.S. Department of Housing and Urban Development was budgeted in the same year.28 In fact, OMB approximations suggest these programs will cost the government more than $818 billion (MID - $597.610 billion + PTD - $220.040 billion) in total over the next decade (2019-2028).29

MID AND PTD SHOULD BE REFORMED

When it comes to promoting homeownership and housing affordability, thought leaders from across the political aisle have long argued that the American tax code has significant flaws. The most controversial deductions to take aim at are the MID and PTD, and for good reasons.
Disproportionate Benefits for the Wealthy
Yet despite the high price tag, few households that could really use the benefits from these deductions receive them. Wealthy families benefit far more than lower-income households from these deductions and the difference is significant. According to model estimates released by the Tax Policy Center in conjunction with the Urban Institute and Brookings, the wealthiest 20% of households pocketed approximately 78% of the benefits from the MID and PTD in 2018, leaving only 22% of the benefits for the remaining 80% of households.\textsuperscript{30} A household in the bottom 20% receives nothing from these deductions while the average pay-out for a family in the top 0.1% is $4,880.\textsuperscript{31}

Disproportionate Benefits for White Households
Similar inequities exist when looking at the issue in terms of race. A report released in October 2017 (before the enactment of the TCJA) indicates that while 67% of households in this country are White, they receive about 78% of the benefits from the Mortgage Interest Deduction. On the other hand, Black and Latino people represent around 13% of the population but only receive 6-7% of the benefits from this deduction. Part of this disparity is a result of the higher percentage of White households who own homes with mortgages. While nearly 40% of White households have mortgages, only 25% of Black and 30% of Latino households do.\textsuperscript{32}

MID and PTD are Only for Tax Filers who Itemize Deductions
A significant reason for this difference is that MID and PTD are only available to people who itemize their tax deductions. Households will not do this if the sum-total of itemized deductions is less than the standard deduction, which nearly doubled under the 2017 TCJA and is now $12,000 for an individual filer and $24,000 for married couples filing jointly.\textsuperscript{33}

Even fewer households have enough deductions to justify itemizing over taking the standard deduction under the TCJA. The percentage of households who took the MID was 21% in 2017, which dropped to 8% in 2018. Households at all income levels itemized less and for those making less than $50,000 annually, the rate dropped from an already low 6% in 2017 to a mere 2% in 2018.\textsuperscript{34} This means it makes even less sense to keep these itemized deductions, as they increasingly advantage the hyper-wealthy.

The MID and PTD Favor the Purchase of More Expensive Homes
The MID and PTD reward wealthier homebuyers who purchase more expensive homes rather than promoting homeownership for everyone. This is because wealthier households are more likely to purchase more expensive homes in higher-cost areas, leading to larger deductions.\textsuperscript{35} Findings from a 2017 study examining the impact of reducing the MID for high-income households in Denmark indicate that this deduction does motivate buyers to purchase more expensive homes (while the MID in Denmark is not constructed or operated exactly like the MID in the US, the study is still informative).\textsuperscript{36} Taken together, these factors illustrate how the MID and PTD as constructed are not good policy.

CHANGES BY THE TCJA REDUCED BENEFITS FOR THE WEALTHY BUT DID NOTHING FOR WORKING FAMILIES.
While the MID and PTD still disproportionately benefit the wealthy post-TCJA, the advantages were even greater before the caps put in place for these deductions.
by the Act. For example, in 2017 the average benefit for a household in the bottom 20% was nothing (it was $30 for the second-lowest quintile), while the average benefit for a household in the top 0.1% was around $14,630.37. As mentioned above, estimates for 2018—or after passage of the TCJA—suggest that the bottom 20% receive nothing from MID and PTD, while the top 0.1% pockets approximately $4,880.38. In either case, the news is not good for the bottom 20% but the top 0.1% receive four times as much without the cap. This change creates less of a windfall for the wealthiest households, which is a welcome development but it still does nothing for the neediest families. It is also worth noting that these caps are scheduled to expire at the end of 2025 and there are lawmakers that are trying to get them repealed even earlier which would restore the huge pay-out for the wealthiest of the wealthy.

The recommendations contained in this proposal are a much better way to target resources of this size to increase homeownership for those who need it the most. The billions from MID and PTD could be redirected so they benefit many more working families, lessening the disproportionate concentration of wealth at the top and narrowing the racial wealth divide.

**Recommendations**

Presented below are four recommendations to replace the MID and PTD with more inclusive and equitable tax programs that are designed to bring financial relief to cost burdened renters and make it easier for more families to become homeowners.

These policies are:

- The Low-Income Renters’ Credit
- The Downpayment-Builder Matched Savings Program
- The First-Time Homeowners Credit
- The Homeowners Post-Purchase Tax Credit

While these policies are not going to solve the housing affordability crisis on their own, they are a meaningful step in the right direction. They will also disproportionately benefit households of color which, in turn, could lessen the racial wealth disparities that exist. As mentioned earlier, it is also extremely inefficient to use the tax code to benefit the wealthy few. By redirecting these dollars to more efficient policies, the money spent will help a greater number of families across the income spectrum.
Taken together, these recommendations create a pathway that can support families with the greatest needs through a lifetime of housing choices, from renting to purchasing a home and maintaining ownership after purchase. Each of the four parts on its own has value but the greatest and most far-reaching impact is achieved by these pieces working in concert by being enacted together. This approach could lead to truly transformative change. While homeownership may not be for everyone, the fact remains that ownership is a critical part of the American Dream and an aspiration for many households. These policies should support households with the greatest financial needs and barriers to homeownership each step of the way to this goal.

LOW-INCOME RENTERS’ CREDIT

Prosperity Now believes that homeownership can be a highly effective wealth-building tool but securing affordable rental housing is an important first step in achieving financial stability. In those instances where homeownership is not an immediate option, low-income families could take advantage of a renters’ credit aimed at reducing rental-cost burdens.

Rationale

As our earlier discussion on housing-cost burdens demonstrates, there is a need for rental support. On top of this, the programs that alleviate rent burdens are not able to meet the demand for assistance. The largest is the Department of Housing and Urban Development’s (HUD) Housing Choice Voucher program (formerly known as Section 8). This program provides eligible households with a subsidy that covers the gap between the amount of rent owed and 30% of a household’s income. Eligible households have incomes at 80% AMI or less, with 75% of benefits going to those at the lower end of the income spectrum, making less than 30% AMI. Because of funding limits, only a quarter of those that qualify can acquire a voucher and the program is known for having long waiting lists.  

Recommendation

Prosperity Now recommends the creation of a refundable tax credit for cost burdened renters. The amount of the credit would be determined by the percentage of income spent on rent. Only households with incomes at or below 80% of the area median would be eligible for the credit and households who spend less than 30% of income on rent would also be excluded. Households who spend more than 30% of income on rent would be able to claim between $1,000 and $3,000 during tax time with larger claims going to those with the most severe rent burdens.

More specifically, the amount of the credit would gradually phase-up from a minimum of $1,000 for those who are just over 30% cost burdened to a maximum of $3,000 for those who are 80% cost burdened or greater, at which point the credit would plateau. The plateau is to ensure that those at the 80% level—an extremely heavy burden—could take the maximum. It also assumes there are fewer households that have burdens above 80%.

This recommendation is the only one not directly tied to homeownership. It is aimed at increasing the overall financial security of rent burdened families which could, in an indirect way, support homeownership for those interested in becoming owners. For example, it could help households set aside money for the matched savings program.
(more below) which helps people save for a downpayment.

Cost
Estimates of program costs depend on take-up rates. There are approximately 28.7 million cost-burdened renters in the country and while not all of these are at the 80% AMI cut-off, quite a few of them likely are. In other words, just less than 28.7 million people could receive between $1,000-$3,000 in relief annually. A generous rough estimate of the preliminary costs suggests that if all eligible households took advantage of the credit—an unlikely outcome—this program would cost the government around $51.4 billion, with the average cost burdened renter receiving $1,400 and the average severely-cost burdened renter pocketing $2,450. If we use the average take-up rate of 78% for the Earned Income Tax Credit (EITC) as a proxy for the renter credit participation rate, the cost goes down to just south of $40.1 billion.

THE BENEFITS OF REFUNDABILITY OVER NONREFUNDABILITY

Prosperity Now recommends a refundable structure for the renters’ and homeownership credits outlined in this proposal. This is because a refundable structure reaches substantially more of the poorest households that are most in need of support than a non-refundable model.

The percentage of American families who do not pay federal income tax is between 43 and 46%, and these are largely low-income. They simply do not make enough money to have any federal income tax liability.

It matters whether the credits in this proposal are refundable or non-refundable. Non-refundable credits only reduce the amount of tax owed - anything over this is forfeited - while refundable credits allow those without any liability to still take the full credit. If the credits are designed to be non-refundable, poor households that have no tax liability will not be able to take advantage of the credit. For example, the EITC is refundable and is the most powerful anti-poverty tool in the tax code.

DOWNPAYMENT-BUILDER MATCHED SAVINGS PROGRAM

Saving for a downpayment is cited as the most common reason for renting or putting off homeownership and as housing prices continue to rise the size of downpayments will also grow. This is less of a lift for wealthy families that have the benefit of higher incomes, inheritances and other forms of family assistance but it is a major hurdle for households at the lower end of the income spectrum. And this is not including the other costs associated with purchasing a home such as paying for insurance or ongoing costs like home repairs. With few exceptions (such as certain mortgage loans from the Department of Veterans Affairs or the Department of Agriculture), a family must often secure a significant downpayment to move from being renters to owners and benefit from the wealth-building potential that comes with homeownership.

The downpayment-builder credit proposed here helps defray some of these upfront costs by having the government provide a grant that matches the savings a household sets aside for a downpayment up to a certain amount.

Rationale
Matched savings programs have existed for at least three decades and are a proven method of increasing household wealth. Prosperity Now is a champion of these savings models and one of the original leaders in the space. Also known as individual development accounts (IDAs), IDAs are used to help people pay for important assets and opportunities like homeownership, education and small business development. In fact, saving for homeownership is one of the most popular uses of IDAs.
For 20 years, the federal Assets for Independence (AFI) program successfully leveraged the matched savings structure to help families build wealth and the lessons learned from AFI can help inform the current recommendation.

Along with helping people become homebuyers who otherwise would be unable to, a significant benefit of matched savings is the stability it provides after closing on a house. Evidence suggests IDA homebuyers are much less likely to face foreclosure—one-half to one-third less likely, in fact—than similarly situated households (similar communities and incomes). As the housing crisis illustrated, a stable housing market is as much about keeping people in their homes as it is about making homeownership accessible.

**Recommendation**

Prosperity Now recommends that Congress authorize a matched savings program to help low-income families save for a downpayment on a home. Specifically, families with incomes at or below 80% AMI that are interested in becoming homeowners and have not owned a home over the past three years could save up to $2,000 of their own money over the course of two years and the federal government would match whatever is put aside dollar-for-dollar (1:1 match). This would allow a household to save a maximum of $4,000 to cover pre-home purchase costs ($2,000 of their own savings and $2,000 from a federal match).

Unlike IDAs that are managed locally by direct service providers, this program would be managed by the Treasury Department and would be operational during tax-filing season. This approach has the advantage of scale, provides a standard set of procedures that applies across all localities that helps streamline the program and does not require local resources to implement. As mentioned earlier, the EITC has an impressive participation rate—more than 70% in virtually all states—and one of the reasons for this is the credit is tied to tax filing.

Participants who wish to set aside more than $2,000 of their own money for a downpayment would be allowed to do so but these additional savings would not be matched. Given what we know about the volatile financial lives of working families, they would also be able to withdraw some of their own contribution in case of an emergency but would be unable to spend any of the match for this purpose. This is also better than having debt end up in collections for failure to pay or taking out a payday loan or some other predatory product. At the same time, the potential loss of the match would discourage indiscriminate withdrawals.

The decision to endorse a $2,000 cap and a 1:1 match was informed by the following data:

<table>
<thead>
<tr>
<th>City</th>
<th>80% AMI</th>
<th>Median Entry Level Home Value</th>
<th>3.5% Downpayment (FHA Loan)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Atlanta, GA</td>
<td>41,361</td>
<td>77,650</td>
<td>2,718</td>
</tr>
<tr>
<td>Nashville, TN</td>
<td>42,286</td>
<td>101,700</td>
<td>3,560</td>
</tr>
<tr>
<td>Minneapolis-St. Paul, MN</td>
<td>43,424</td>
<td>143,100</td>
<td>5,009</td>
</tr>
<tr>
<td>Salt Lake City, UT</td>
<td>67,922</td>
<td>174,000</td>
<td>6,090</td>
</tr>
<tr>
<td>Los Angeles, CA</td>
<td>43,601</td>
<td>347,150</td>
<td>12,150</td>
</tr>
</tbody>
</table>
The analysis includes cities with housing markets that vary in terms of cost, from some of the least expensive (Atlanta) to one of the most expensive (Los Angeles). The amount of a 3.5% downpayment on an entry-level home in these communities was calculated.\textsuperscript{50}

As these numbers illustrate, downpayments for homes in the more affordable markets are less than $4,000. This means that the matched program could cover the entire downpayment in these cities if used to capacity. Moreover, the more expensive market of Minneapolis/St. Paul is only $1,000 more than the $4,000 maximum, which means the matched program would cover most of the downpayment for homes in this tier.

In the most expensive markets, the program would offer buyers less assistance but it could still significantly decrease the amount owed (consider Los Angeles). Furthermore, city, state and housing finance agency-administered programs operate in all states and could augment this federal match. These could offer greater flexibility and account for cost variations across regions.\textsuperscript{51} It is also possible to consider indexing the match to inflation or a housing index like Case-Schiller after the program is in place at some point to address any increases in median downpayment amounts.\textsuperscript{52}

The program design would also require homeownership education along with the match. Matched savings programs are more impactful when participants receive such education. Evidence suggests that IDA recipients end up with more affordable (lower cost) loan products than their peers\textsuperscript{53} which may account for why they experience fewer foreclosures. A knowledgeable counselor can recommend loans with lower costs that a borrower would not necessarily discover on their own. Counseling could also identify individuals who are not ready for homeownership and help set them on the path to becoming owners down the line.

**Cost**

In 2018, approximately 5.35 million existing homes were sold\textsuperscript{44} along with around 617,000 new homes,\textsuperscript{55} which is close to 6 million homes in total for the year. First-time homebuyers generally account for approximately 35% of purchasers annually\textsuperscript{56} or 2.1 million borrowers. If a maximum of $2,000 were available to all these owners, the cost to the government would be approximately $4.2 billion. A more realistic cost estimate comes from splitting the difference between the SaveUSA and EITC participation rates. The highest take-up rate from SaveUSA, a program that provided matched savings at tax time to EITC recipients, was 13%.\textsuperscript{57} Using this as the participation rate in this context (and considering the credit is reserved for 80% AMI borrowers), the cost goes down to less than $546 million. If the EITC participation rate of 78% is used as a proxy instead, the cost ends up around $3.28 billion. When the two are averaged, estimates for program cost are $1.91 billion.

**FIRST-TIME HOMEOWNERS CREDIT**

To help shore up the housing market, Congress created a nationwide credit for first-time homebuyers during the housing collapse in 2008, which proved to be a popular program with less of a top-heavy impact. According to analysis from Prosperity Now’s *Uphside Down to Right-Side Up* report, most of the benefits went to low- and moderate-income families. Eligibility varied somewhat for this program at different times but, at its most generous, the program offered a maximum tax credit
of $8,000 for those with an annual income below $225,000 ($125,000 for single filers).

Those making less than $50,000 claimed $10 billion of the credit’s total value, while those making between $50,000-100,000 claimed $8 billion. On the other hand, those with incomes that exceeded $100,000 received $2 billion. Washington, DC also had a first-time homebuyer credit that was more progressive than the current MID and PTD. The program provided a maximum credit of $5,000 for those with an annual income below $130,000 ($90,000 for single filers) and was especially popular with those making between $30,000 and $50,000, or 42 to 69% of AMI. This shows that like IDAs, this credit has a proven track record of success.

Both programs did in fact help increase homeownership rates for first-time homebuyers. First-time buyers in the DC program accounted for 67% of all purchasers—much higher than the national average of 40%. The federal program registered a large increase in purchases of existing homes (what was measured rather than new home sales) though the results fluctuated with peaks in purchase volumes happening when the credit was set to expire.

Rationale
The first-time homebuyer credit would help alleviate some of the financial stress created by reimbursing several of the closing costs that the matched savings program does not cover in more expensive markets (consider the earlier example of Los Angeles), as well as recoup some of the other transaction costs that come with homeownership like title insurance which can be expensive, costing over $1,000 on average.

Because the credit is only available during the tax year following a home purchase, households would still need to have the full downpayment plus any additional closing costs before receiving it. The major benefit of this recommendation is that it helps stabilize the finances of a homeowner just after purchase, which is when they tend to be the most financially vulnerable. This coordinates well with the downpayment-builder credit which is aimed at making the downpayment itself more affordable.

Recommendation
To complement the other policies in this proposal, Prosperity Now recommends the adoption of a permanent first-time homebuyer’s tax credit for households with incomes at or below 80% AMI who have not owned a home for the last three years. To prevent a windfall in low-cost markets, for homes valued at $60,000 or less, the credit is capped at 5% of the purchase price. For all others, the maximum amount of the credit is $6,000. The credit would be refundable, meaning that all or part of the credit would be refunded to eligible first-time homebuyers after their tax liabilities have been met.

This means the maximum amount a household could claim from the matched program and the first-time homebuyer credit together for a home valued at $60,000 or more would be $10,000.

Costs
Like other recommendations, this approach is less costly than the MID and PTD. According to the Internal Revenue Service (IRS), approximately 2.2 million tax filers took the federal credit in 2010. Assuming this number of filers will participate in this context, the cost to the government would be approximately $13.2 billion, if the maximum of $6,000 were available to these owners. Since we are reserving the credit for 80% AMI borrowers, the amount would be reduced further.

HOMEOWNERS POST-PURCHASE TAX CREDIT
The previous recommendations already address some of the barriers to becoming a homeowner but it is also important to make sure a person can stay in a home after the closing documents are signed and processed. Homeownership is no longer a wealth-building tool if a home goes into foreclosure or an owner is unable to make needed repairs. This is especially true for low-income homeowners who are more vulnerable to financial shocks in the years just after purchase since paying for closing costs takes
away from savings to survive these shocks. This tax credit is designed to help families stay in their home by providing relief during tax time in the form of a credit that can be taken each year.

Rationale

Prosperity Now is proposing a flat credit. This is where households receive the same dollar amount without any phase-ups or phase-ins and irrespective of income. The decision to endorse a flat credit rests mainly on how this structure is especially beneficial to low-income families. Research from the Urban Institute suggests a flat credit leads to a more equal distribution of benefits among income groups, with low-income families benefiting to a greater degree than households in higher income brackets. Because these are the households that need assistance the most, it is logical to choose a structure that will provide them with comparatively greater benefits. At the same time, since the credit is available to everyone, high earners—indeed, the wealthiest taxpayers—will still be able to claim the credit. This is a simple and inclusive structure. It is also more politically palatable since wealthier households would still receive some benefits from the redistribution of dollars away from MID and PTD.

Recommendation

The mortgage interest and property tax deductions should be replaced with a flat, refundable credit of $1,200 indexed to inflation—or $100 per month—that is available to all homeowners with a mortgage regardless of income, wealth or mortgage size (no phase-outs or income cut-offs).

The $1,200 figure is informed by the “assessed value” approach to setting aside money for repairs. Under this approach, a homeowner budgets between 1 and 4% of the home’s assessed value for repairs each year. As mentioned earlier, the median cost of an entry-level home is around $90,500. This would mean a family should budget between $900 and $3,600 each year for a house of this value. For the lower end, a $1,200 tax credit would cover these expenses. Wealthier households with more expensive homes and amenities will pay more for repairs but this credit would provide some relief and the impact for low-income households would be even greater.

Costs

According to the American Community Survey, approximately 48 million homeowners had a mortgage (meaning they do not own their home outright) in 2018. If a tax credit of $1,200 were available to these 48 million owners, it would cost the government $57.6 billion, which would be reduced to $44.9 billion using the 78% average EITC participation rate as a proxy.

OVERALL COSTS FOR ALL RECOMMENDATIONS COMPARED TO MID AND PTD

Taken together, the rough estimated cost to the taxpayer at the onset of adoption (first year) for these recommendations is just over $100 billion. The total would go down further because of the eligibility cap of 80% AMI for all but the Homeowners Mortgage Post-Purchase Tax Credit. While this is more than the $52.6 billion spent on the MID and PTD in 2018, several modifications resulting from TCJA will expire in 2025 unless Congress extends them. Expiration of the MID and PTD caps would raise costs for these deductions significantly. Indeed, before TCJA was passed in 2016, the MID and PTD cost taxpayers around $100 billion.

Also, there are several other expensive deductions in the tax code that disproportionately benefit the wealthy which could be reformed and the savings from these changes could help cover any shortfalls. In fact, this provides an opportunity to revisit the tax code and seriously consider finding ways to meaningfully reform other exclusive and inequitable programs to make them benefit more working families.
Conclusion

The country is in the midst of a major housing crisis. For decades, housing costs have continuously outpaced gains in income leading to significant housing-cost burdens for millions of households, stagnating homeownership rates and a growing racial wealth divide. At the same time, we choose to spend tens of billions of dollars annually on tax programs that benefit a handful of people at the top and do next to nothing for everyone else. If nothing is done to change course, the situation is going to get worse.

This proposal presents a holistic way to start moving the needle in the right direction by making housing more affordable and reducing the racial wealth divide. By replacing housing deductions for mortgage interest and property taxes with the credits and matched savings programs outlined in this proposal, many more people could benefit, particularly those with the greatest needs. The current deductions exclude far too many households and give the most to the wealthiest who have no cost burdens and would become homeowners even without the deductions.

The recommendations in this proposal are meant to build on one another with each policy addressing different elements of housing affordability. They have an impact if adopted separately, but taken together, there is an opportunity for transformative and scalable impact. Renter-cost burdens are lowered through the rental credit, pre-home purchase costs are addressed through the downpayment-builder credit, after purchase costs are reduced through the first-time homebuyer's tax credit and ongoing housing costs are alleviated through a refundable annual credit open to all.

These recommendations are intended to open the benefits of the tax system to more families through greater inclusivity and equity. They cover renters and homeowners, benefit more low-income families and households of color and address housing burdens and barriers to access at different points. These recommendations are not going to solve all the problems that exist in the housing market, meaning other housing policy reforms are still needed, but if they were adopted, they would go a long way toward helping working families stabilize their housing and build wealth through increased savings and homeownership.
Endnotes

1 The authors would like to thank our colleagues at Prosperity Now for their contributions to this report and for providing valuable feedback throughout this process: Parker Cohen, Kate Davidoff, Sandiel Grant, Melissa Grober-Morrow, Myrto Karaflos, Emanuel Nieves and Lauren Treadwel. Thank you also to our external reviewers, including Steve Wamhoff from the Institute on Taxation and Economic Policy (ITEP) and Sarah Mickelson from the National Low Income Housing Coalition (NLIHC).


4 Though we are primarily focusing on the MID and PTD, it is important to point out that there are other real estate related provisions in the tax code that disproportionately benefit the wealthy and could be amended or repealed to help pay for the recommendations in this proposal. Examples include the exclusion of capital gains on sales of principal residences, as well as a number of special breaks for real estate investors.

5 JCHS has released its 2019 report on the State of the Nation’s Housing which contains data on cost-burdened households in 2017. The number was down from 2016 and was fueled by lower burdens among homeowners. Renters continue to face similar levels of burdens. Since the 2019 report did not contain data that stretched back as far as the 2018 report, this proposal is using data from the earlier report.


7 Ibid.

8 Ibid.

9 Ibid.

10 Ibid.


12 Ibid.


19 Lisa J. Dettling, Joanne W. Hsu, Lindsay Jacobs, Kevin B. Moore, and Jeffrey P. Thompson with assistance from Elizabeth Llanes, “Recent Trends in Wealth-Holding by Race and Ethnicity: Evidence from the Survey of Consumer Finances,” Board of Governors of the Federal Reserve System, September 2017,
20 Something to be cautious of is a home depreciating in value. This could strip away some of the wealth gains from ownership but it is important to keep in mind that housing values do fluctuate and carefully putting thought into which home to purchase, which quality housing counseling can help with, reduces these risks.


29 Estimates of Total Income Tax Expenditures for Fiscal Years 2018-2028


31 Ibid.


33 While it is important to note that these changes to the code are temporary (set to expire in seven years), they are still in place for the near future and could be extended or made permanent at some point.


44 With this said, it is important to keep in mind that these families often pay other taxes like excise (gasoline, etc.), sales and payroll taxes and though they pay a smaller percentage of taxes than their wealthier counterparts, they pocket a much smaller amount of the nation’s income. According to the Institute on Taxation and Economic Policy (ITEP), the poorest fifth will only receive 3.5% of national income, while the richest 1% receive 20.3%.
47 Ibid.
49 EITC Participation Rate by States, Internal Revenue Service
50 We chose 3.5% rather than 20%, which is unusual for first-time homebuyers, and because the matched savings program is for lower-income households (80% AMI) who are more likely to use products with lower downpayment requirements such as Federal Housing Administration (FHA) loans or targeted products from Fannie Mae or Freddie Mac. These families are also more likely to be in the market for a starter home, so we used the value of entry-level homes rather than overall median home values.
51 It should be noted that in many markets, there is a shortage of starter homes. This program is not designed to address this.
53 Rademacher, Wiedrich, McKernan, Ratcliffe, and Gallagher, “Weathering the Storm”
60 Ibid.


