Senate Committee on Finance
U.S. Senator Orrin Hatch (R-UT), Ranking Member
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HATCH STATEMENT AT FINANCE COMMITTEE HEARING EXAMINING THE IMPACT OF TAX INCENTIVES ON AMERICAN HOMEOWNERSHIP

WASHINGTON – U.S. Senator Orrin Hatch (R-Utah), Ranking Member of the Senate Finance Committee, today delivered the following opening statement at a committee hearing examining a variety of tax incentives and their impact on homeownership:

By addressing the issue of homeownership, and the tax incentives that encourage it, this committee is considering a matter of critical importance to our economic recovery. Homeownership is often identified with the American dream. Yet far too many Americans have awoken from that dream in recent years to face an unpleasant reality.

Over the last decade, many of our fellow Americans bought homes they could not afford. Their plans depended on continued increases in real estate values. Having bought homes with adjustable rate mortgages, they would either refinance and stay in the home or sell the house at a profit if they could no longer afford the mortgage. However, starting in 2006 in most parts of the country, house prices ceased to climb, and often went down — way down. The result has been nothing short of carnage in the residential real estate market.

We have suffered record numbers of foreclosures.

Those who are able to remain in their houses are often under-water, undercutting our economic recovery by contributing to low consumer-confidence and undermining the employment mobility necessary for a vibrant economy.

The ripple effects of this collapse in real estate values have been tremendous — failing banks, high unemployment, a severe recession, and a stalled recovery. The impact of America's depressed housing market is felt not just here at home, but throughout the world.

This is a horrible spiral. A weak housing market contributed to a weak economy, and a weak economy puts further downward pressure on home prices.

We must not allow rhetoric about fixing the housing market to get ahead of reality. We are not in these straits because of a failure of government intervention. Both before and after this crisis, the federal government has been actively involved in housing policy, and according to many this government intervention actually helped to drive the housing bubble that is still deflating.

Given the still precarious status of the nation's housing markets, and past mistakes made by government to prop up these markets, it is fair to say that Congress needs to tread carefully when addressing policies that effect real estate. With respect to the tax code, there are a number of proposals that would alter the treatment of housing, but any changes should happen only with the utmost care and significant transition periods.

The justification for homeownership tax preferences is simple: Homeownership helps create a more stable society. It encourages virtues of solid citizenship by giving homeowners a vested interest in their communities. By having a greater stake in their community, homeowners provide social stability by contributing to crime-control, schools, churches, beautification, and local government. To put it in economic terms, not all of the benefits of homeownership go to the homeowner. Homeownership has certain positive externalities.

Our tax code has long recognized the positive features of homeownership. For as long as our country has had an income tax — since 1913 — a deduction for mortgage interest has been allowed. There have been proposals over the decades to get rid of the home mortgage interest deduction, but none of them have succeeded.

Now President Obama has proposed to reduce the benefit of the mortgage interest deduction. He would give upper-income taxpayers a tax benefit as if they were in the 28 percent tax bracket, even though they are in a higher tax bracket. It is a bad proposal. It is complicated and ill-conceived. And it also is poorly timed given the fragility of the housing market.

There are other — more simple and fair — ways to proceed. I would recommend to President Obama the example of his predecessor President Reagan. When President Reagan took office, the highest tax bracket was 70 percent, but when he left office, it was only 28 percent. So, in a certain sense, someone in the 70 percent tax bracket valued their mortgage interest deduction much more than after the '86 Tax Reform Act. At a highest bracket of 28 percent, the deduction was not worth as much anymore. By reducing marginal rates, President Reagan did in effect lessen the value of the mortgage interest deduction.

So, if President Obama wants to reduce the mortgage interest deduction as if the highest bracket were only 28 percent, I recommend that he consider President Reagan's example and simply advocate that the highest tax bracket *actually be* 28 percent. It would be simpler, it would achieve President Obama's goal of lessening the mortgage interest deduction benefit to higher-income Americans, it would reduce marginal tax rates allowing for greater productivity and growth, and it would attract bipartisan support.

I would also remind the President of a principle that I, and many of my colleagues, think is of paramount importance. If lawmakers reduce a housing tax preference — or any tax preference for that matter — the increased revenues should be used solely to reduce individual income tax rates. Americans are already taxed enough to pay for a government that is too large, and growing by the day. We should not be raising the net tax burden on the American people beyond the historically high levels that we are already projected to hit in coming years.

Chairman Baucus, we have a great panel here. I'm delighted to see our former Finance Committee colleague Senator Breaux. We have some very learned economists. We have the Vice President of Tax from Pulte Corporation. Thank you for having this hearing and calling these witnesses. I look forward to their testimony.

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