

## No Mortgage Deduction for Big Houses?

BY KENNETH HARNEY  
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WASHINGTON - To add to mortgage meltdown miseries, the credit panic, plunging home sales and rising foreclosures, here's a new worry: a proposed cutoff of mortgage-interest tax deductions for all houses with more than 3,000 square feet.

One of Capitol Hill's most experienced and powerful legislators is drafting a "carbon tax" bill that would do precisely that. Rep. John Dingell, D-Mich., chairman of the House Energy and Commerce Committee, expects to introduce comprehensive climate change reform legislation once Congress returns next month.

Besides imposing hefty new federal taxes on gasoline, the forthcoming bill will, in Dingell's words, seek to "remove the mortgage interest deduction on McMansions - homes over 3,000 square feet." Dingell said he recognizes that proposals like these will be highly controversial, but he believes they are essential to achieving the goal of reducing carbon emissions 60 percent to 80 percent by the year 2050.

"In order to address the issue of climate change, we must address the issue of consumption," Dingell said in talking points prepared for town hall discussions of the legislation. "We do that by making consumption more expensive."

Houses, like autos, long have been known to be contributors to greenhouse gas emissions through heating, cooling, electrical usage and building materials, plus the high-

ways and roads needed to make far-flung subdivisions accessible to buyers. Home builders insist that they have "gone green" in recent years, and that houses built within the past decade are the tightest, most energy-efficient in history.

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Aides to Dingell said that because the legislative language on the McMansions and other tax proposals is still being drafted, neither the congressman nor they could elaborate on the details of the plan or why a cutoff point of 3,000 square feet was chosen. The Natural Resources Defense Council (NRDC), one of the most outspoken environmental lobbies active in the climate change debate, had no immediate comment on Dingell's proposal.

Realty and building groups were quick to offer critiques. The senior economist for the National Association of Realtors, Lawrence Yun, produced preliminary estimates that terminating mortgage interest tax deductions



for all single-family dwellings larger than 3,000 square feet would result in a national median house price decline of 4 percent - on all homes, not just large houses. Yun estimated that there are at least 10.4 million single-family houses with interior areas of 3,000 square feet or more, and they constitute roughly 15 percent of the nation's owner-occupied housing stock.

Dingell's plan could also push up foreclosures because every 1 percent decline in prices leads to an additional 70,000 foreclosures, said Yun, citing industry research. A four-point price drop in a national market already swamped with foreclosures could add 280,000 more to the total.

Linda Goold, the realty association's tax counsel, challenged the Dingell plan on operational grounds. "We strongly support increasing energy efficiency in houses," she said, "but basing (taxation) on square footage rather than actual energy usage doesn't make sense."

Goold also questioned the enforceability of a federal tax increase tied to the dimensions of structures. "Who is going to do the measurements?" she asked. "Different

people measuring square footage can come up with different numbers. That's why MLS (multiple listing service) listings usually say the square footage is approximate."

Bill Killmer, policy advocate for the National Association of Home Builders, called the Dingell plan "wrongheaded" in its focus on house size.

"We believe a much better approach would be to look at consumer behavior - how efficient are the appliances they've installed, how energy-efficient are the windows, insulation, heating and air conditioning" and other systems.

The interest deduction is one of the biggest tax benefits in the federal budget, according to the congressional Joint Tax Committee. Between fiscal 2006 and 2010, according to a committee study, federal revenue losses attributable to the mortgage interest deductions are expected to total \$402.7 billion. Other federal studies have documented that the benefits of the write-off are heavily skewed toward higher-income taxpayers who have larger-than-average mortgages.

Over the past two decades, occasional proposals have been made in Congress to rein in the deduction - say by limiting it to mortgage amounts below \$300,000. But the write-off has never been seriously endangered because it is so popular with taxpayers and has fierce support in the banking, real estate and construction industries.

Nonetheless, Killmer said his trade group takes "any proposal from Chairman Dingell very seriously because of his impressive re-

cord of legislative accomplishments" spread over 15 terms on Capitol Hill. "The (environmental) problem he is trying to solve is important - nobody questions that," Killmer added. "We just don't think this is the right way to go about it."

*Kenneth R. Harney is a nationally syndicated real estate columnist based in Washington, D.C. E-mail him at [kenharney@earthlink.net](mailto:kenharney@earthlink.net).*