Trump Tax Law Hurts Homeowners in New York's 12th Congressional District

Prepared for Rep. Carolyn B. Maloney

Democratic Staff Report
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EXECUTIVE SUMMARY

Homes are often the largest source of savings for American families, and homeowners generally build equity with each mortgage payment they make. Since Congress enacted a federal income tax more than a century ago, homeowners have been allowed to deduct interest on their home loans, as well as on property taxes on their homes.

On December 22, 2017, President Donald Trump signed the Tax Cuts and Jobs Act. The new tax law imposes significant new financial penalties on American homeowners across the country. No Democratic Members voted in favor of the bill.

Under the new tax law, homeowners are now prohibited from deducting interest on home equity loans if they use those funds for unexpected medical emergencies, to pay for college education, or for any purpose other than home improvement. This retroactive provision applies even to future interest payments on loans taken out by homeowners in the past. Homeowners also are no longer allowed to deduct property taxes on their homes to the extent that state and local taxes, including property taxes, are more than $10,000.

This staff report was prepared by the Democratic staff of the House Committee on Oversight and Government Reform at the request of Representative Carolyn B. Maloney. It summarizes the specific effects of the new tax law on homeowners in New York's 12th Congressional District based on multiple sources of data. The report finds:

- **None of the approximately 101,000 homeowners currently living in New York's 12th District will be allowed to claim deductions for interest on home equity loans they use for any purposes other than home improvement.**

- **Beginning in 2018, about 9,000 homeowners in New York's 12th District with existing home equity loans will not be allowed to claim full home equity interest deductions as they did in the past.**

- **Although 75,000 homeowners in New York's 12th District used to be able to deduct their full property taxes, about 42,000 no longer will be allowed to do so.**

METHODOLOGY

This report is based on data from the following sources:

- "2016 American Community Survey" from the U.S. Census Bureau;
- "2016 Survey of Consumer Expectations" from the Federal Reserve Bank of New York;
- "2016 Survey of Consumer Finances" from the Federal Reserve Board of Governors; and
- "2015 Individual Income Tax Returns: Selected Income and Tax Items by State, ZIP Code, and Size of Adjusted Gross Income" from the Internal Revenue Service.

Estimates of the impacts on homeowners with property taxes are based on data from the Institute on Taxation and Economic Policy. Estimates of the impacts on homeowners with home equity loans are based on a methodology from Co-Equal.

This report does not seek to determine whether a specific family will pay more or less under the new tax law. That is a fact-specific determination that families will have to make each year based on many factors, including how much income they make, where they live, and the new tax law's other changes, such as additional cost increases caused by changes to the Affordable Care Act.

I. NEW FINANCIAL PENALTIES ON AMERICAN HOMEOWNERS

Homes are often the largest source of savings for American families, and home equity loans are often the most affordable way for these families to obtain credit. In addition to taking out primary mortgages, homeowners generally may borrow against the equity in their homes by refinancing their primary mortgages to access additional funds, taking out second mortgages, or obtaining Home Equity Lines of Credit (HELOCs) to withdraw funds up to certain limits.

Funds from these loans may be used for a wide range of purposes, including covering unexpected medical expenses, paying for children to go to college, or consolidating or reducing interest rates on other more costly loans.

On December 20, 2017, the United States Senate approved the tax bill by a vote of 51 to 48, with Democrats opposing it and Republicans supporting it.[1] The same day, the House of Representatives approved the bill by a vote of 224 to 201, with Democrats opposing it and all but 12 Republicans supporting it.[2]

The new tax law made several changes to existing tax provisions covering homeowners:

- ***Limited the Home Equity Interest Deduction:***
  For over one hundred years, homeowners have been allowed to deduct interest on their home loans. Before the new Republican tax law was passed, homeowners were allowed to deduct interest on home equity loans of up to $100,000. The new Republican tax law limits homeowners to deducting interest only related to home improvement rather than other uses.

- ***Limited the Property Tax Deduction:***
  Homeowners used to be allowed to deduct property taxes as part of the deduction for state and local taxes. The new Republican tax law now sets a limit of $10,000 for the amount homeowners may deduct in combined state and local taxes, including property taxes.

- ***Capped the Size of Mortgages with Interest Deductions:***
  The new Republican tax law reduces the size of the initial principle balance of mortgages on which homeowners may deduct interest from $1,000,000 to $750,000.

In addition to these changes, the existing tax deduction on premiums that homeowners pay on mortgage insurance is set to expire. Mortgage insurance is generally required for homebuyers paying less than 20% down. In 2017, these premiums were fully deductible for homeowners with incomes below $100,000, but they will not be deductible in 2018.

II. ESTIMATED EFFECTS OF REPUBLICAN TAX LAW ON HOMEOWNERS IN NEW YORK'S 12TH CONGRESSIONAL DISTRICT

The new tax law will have a significant impact on homeowners across the country.

In New York's 12th District, approximately 101,000 homes are owner-occupied, and approximately 12,000 of these homeowners have home equity loans. Approximately 9,000 of these homeowners with home equity loans (about 73%) used proceeds from these loans for purposes other than home improvement, assuming they follow national trends. None of these 9,000 homeowners will be allowed to claim full interest deductions on payments made after December 31, 2017.

For example, if parents refinanced their mortgage or took out a home equity loan in 2016 to cover medical bills for a loved one or college tuition for a child, they would have had every expectation that they would be able to continue deducting interest on those loan payments well into the future. Under the new Republican tax bill, they are now prohibited from doing so.

If homeowners itemized deductions under the previous law and used home loan funds for a purpose other than home improvement, the new tax law significantly increases their after-tax interest rate. For families who still have years—if not decades—remaining to pay off loans they took out in the past, this new retroactive penalty raises serious concerns. If their banks had imposed retroactive increases on their interest rates, there is no doubt that many of these families would have sought immediate redress. In this case, however, these retroactive changes were imposed by congressional Republicans and President Trump.

Finally, under prior law, about 75,000 homeowners in New York's 12th District could deduct their property taxes, claiming an average deduction of about $14,214. Under the new tax law, however, about 42,000 homeowners in New York's 12th District will lose the ability to deduct the full amount of their property taxes because their combined state and local tax deductions are more than $10,000.

New York's 12th Congressional District

	Owner-Occupied Homes (2016)	Estimated Home Equity Loans	Home Equity Loans Affected by Tax Law	Deducted Property Tax Under Prior Law (2017 estimate)	No Longer Able to Deduct Full Property Tax	Mean Deduction (2015)
12th District	**101,000**	**12,000**	**9,000**	**75,000**	**42,000**	**$14,214**

CONCLUSION

President Trump and Republicans in Congress made a clear choice when they enacted the tax bill last year. They chose to take away longstanding tax deductions that American families have relied on for decades. Although some may reap large financial windfalls as a result of the changes in the new tax law, many American families will be penalized despite their ongoing efforts to faithfully invest in their single biggest asset—their home.

ENDNOTES

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[1] *How Every Senator Voted on the Tax Bill*, New York Times (Dec. 19, 2017) (online at www.nytimes.com/interactive/2017/12/19/us/politics/tax-bill-senate-live-vote.html).

[2] *House Passes Tax Bill, Again and with Fixes, Sending Final $1.5 Trillion Package to Trump*, USA Today (Dec. 21, 2017) (online at www.usatoday.com/story/news/politics/2017/12/20/house-set-pass-tax-bill-again-and-fixes-sending-final-1-5-trillion-package-trump/968722001/).