The Trend in Federal Housing Tax Expenditures

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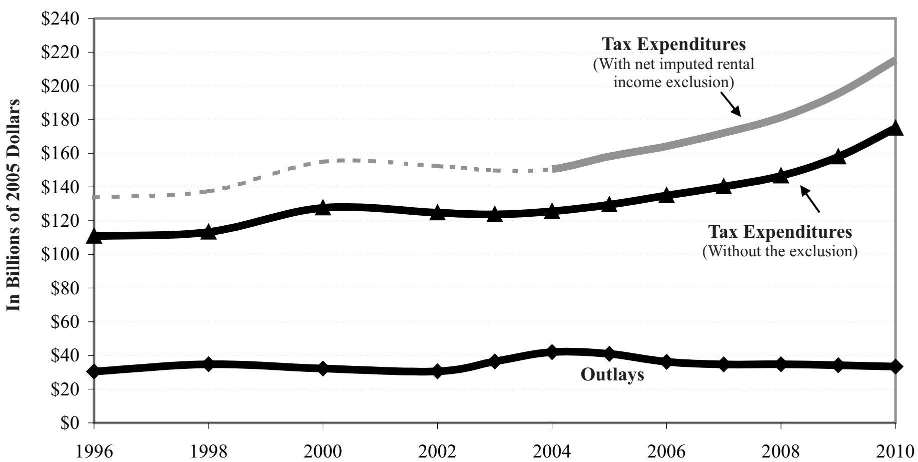
The Office of Management and Budget projects federal spending and tax subsidies for housing, but legislative scrutiny of federal housing subsidies typically focuses only on direct outlays, such as public housing and housing vouchers. However, tax programs that provide deductions to homeowners or credits to both builders and owners, constitute a much larger portion of federal subsidies on housing.

The chart below compares federal outlays on housing with tax expenditures from 1996 projected to 2010. At $41 billion in 2005, the lion's share of housing spending in direct outlays goes to the Section 8 rental voucher program, public housing, and military family housing — programs which subsidize low-to-moderate income families to rent, not own. While on the rise recently, the president's housing outlays are slated to decline after 2006 as a share of national income, mainly as a result of policy shifts.

While direct outlays mainly subsidize renters, the largest housing subsidies by far exist on the tax side and these mainly subsidize homeowners. In 2005 the largest of these tax expenditures taken together — the mortgage interest deduction ($68.9 billion), the capital gains exclusion on home sales ($32.8 billion), the exclusion of net imputed rental income on owner-occupied homes ($28.6 billion), and the property tax deduction ($16.6 billion) — at about $147 billion, represent more than three and a half times all outlays on housing. (The lower line shows the level of tax expenditures on housing if one does not count the exclusion on net imputed rental income, which the OMB has included for the first time, this year.)

While the level of interest rates certainly impacts the annual totals of the deduction-based tax programs, the growing economy and rising real estate prices continue to ratchet up the cost of housing-related tax subsidies. If OMB's projections hold true, the four major homeownership tax expenditures will grow to $210 billion or more than six times the sum of all federal outlays on housing by 2010, accelerating the trend of paying middle-income-to-wealthy households to own their homes while paying some low-to-middle-income households to rent.

Federal Spending on Housing: Outlays vs. Tax Expenditures, 1996-2010



Note: The Office of Management and Budget included an estimate of the exclusion of net imputed rental income for the first time — the dashed portion of the line is the authors' estimate of previous years' levels.
Source: The Urban Institute, 2005. Based on outlay and tax expenditure data from the Budget of the U.S. Government FY 2006 (and past years), converted into 2005 dollars.