



Date: Wednesday, January 30, 2013

To: Sen. Les Donovan, Chairman  
Senate Committee on Assessment and Taxation

Subject: Opposition to eliminating the Mortgage Interest & Real Estate Deductions as contained in SB 78

Chairman Donovan, members of the House Committee on Taxation, thank you for the opportunity to submit testimony on behalf of the Kansas Building Industry Association (KBIA) in opposition to the elimination of the mortgage interest and real estate tax deductions contained in SB 78. KBIA is an affiliate of the National Association of Home Builders and with more than 2,000 members across the state, KBIA plays a crucial role in providing housing for Kansas citizens.

It is no secret that the housing market in Kansas, and much of the country, has suffered through the recent economic downturn as consumer confidence plummeted. Now, with conditions beginning to rebound, the housing market is slowly showing signs of recovery. Tampering with the deduction at this time would be a major setback for today's slowly emerging housing recovery. It would disrupt the plans of young households who are gathering their financial resources to purchase a home. It would also impose a new tax burden on existing home owners, many of whom continue to stay current with their mortgage payments even as they struggle to make ends meet. Ending the deduction would exert further downward pressure on home prices, leaving more home owners with mortgages larger than the value of their property and possibly fueling even more foreclosures.

According to recent tax records, approximately 315,000 Kansas homeowners claim their mortgage interest as an itemized deduction. More than 372,000 claim their state and local property taxes as well. In recent weeks we have heard that eliminating the mortgage interest deduction would only affect a small portion of the population. The reality is that two out of every three Kansas families with a mortgage itemize and claim their mortgage interest deduction. Further it has been stated that eliminating the deduction won't have a significant

impact on working class families as only high wealth individuals have a large enough mortgage to give the deduction significant value. We believe that the exact opposite is true. Mortgages tend to be “life-cycle” issues. That is to say that the very young tax filers have probably not purchased a house yet. And more mature tax filers have likely either paid off their mortgage or paid it down to the point that the interest they pay is a relatively small amount. So while they probably claimed mortgage interest deductions at an earlier time, they likely don’t any longer. Additionally, more than 65% of the Kansans households that itemize and claim their mortgage interest report earnings of less than \$100,000. As we’ve stated before, the real benefit gained from the mortgage interest deduction is realized by younger middle class families raising children and establishing roots in Kansas communities.

It has also been stated that the value of the state deduction is so small that it is really of little to no impact. Based on recent tax data and figures provided by the Kansas Department of Revenue, the value of the average mortgage interest deduction claimed is \$515, with an additional \$115 in state and local property taxes. So on day one, on average, SB 78 would result in \$700 of additional tax burden for Kansas homeowners who currently take advantage of their mortgage interest and property tax deductions. While SB 78 includes future tax reductions, we cannot support policy that places an additional burden on Kansas homeowners at such a difficult economic time. In recent years Kansas property taxes have also seen significant increases. With diminishing state and local revenues, it is highly likely that property taxes will once again be considered as a source of funding for essential services. When combined with the additional tax burden contemplated by SB 78 this will place extreme pressure on homeowners across the state of Kansas.

We believe the elimination of the mortgage interest and property tax deductions in SB 78 will have a significant negative impact on both home values and the housing market in the state of Kansas and we urge you to oppose this portion of the bill. Thank you again for allowing me to address the committee and I will stand for questions at the appropriate time.

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