



Housing Tax and Transfer Programs Decrease Inequality

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August 2015

Housing policy can influence income inequality in many ways. Voucher programs that keep people stably housed, for example, can help workers hold down steady jobs, thereby reducing inequality. Zoning laws can either contribute to or reduce economic isolation and segregation, thus increasing or reducing inequality. Tax and transfer programs tied to housing can create work incentives for some people and disincentives for others—ultimately influencing the distribution of income. At their most basic level, however, housing tax and transfer programs change how disposable income is distributed across households.

Setting aside any effects on households' work and savings behaviors, housing subsidies to low-income families reduce income inequality while the mortgage interest and real estate tax deductions increase it. On net, the distribution of post-tax, post-transfer income is slightly more equal than it would be in the absence of these three programs.

We examine the relationships between housing subsidies, the mortgage interest and real estate tax deductions, and income inequality using calendar-year 2012 data from the March 2013 Current Population Survey (CPS) adjusted and augmented by the Transfer Income Model, or TRIM.¹ The March CPS's Annual Social and Economic Supplement provides the data for the federal government's official measures of income, poverty, and inequality. The official income measure, however, counts only pretax, post-cash transfer income. And, the CPS understates transfer income because individuals tend to underreport it. TRIM adds in the cash value of near-cash benefits like food stamps and adjusts for the underreporting of transfer income by aligning the data with administrative targets. TRIM also imputes the value of various itemized deductions, aligning those imputations with totals from the Internal

Revenue Service's Statistics of Income; it then uses those values and other information to compute income tax liabilities.

TRIM computes the value of low-income housing subsidies as the difference between the estimated rental cost of a household's dwelling and the required rental payment. The total value of those subsidies is about \$36 billion in 2012.² To assess the effect of those housing subsidies on inequality, we subtract them from a household's post-tax, post-transfer income.³ To assess the effect of the mortgage interest and real estate tax deductions, we eliminate the deductions and recompute the household's federal and state income tax liability. In some cases, the household would be better off taking the standard deduction than itemizing, and we change the deduction decision to minimize the household's tax liability. The net value (reduction in tax liability) of the mortgage interest deduction is about \$70 billion in 2012, and the net value of the real estate deduction is \$28.2 billion.⁴ To adjust for differences in household size, we divide a household's income by the square root of the number of household members.⁵

Progressive taxes and transfers have an equalizing effect on the income distribution (without considering any induced behaviors). The Gini coefficient measures inequality on scale from 0 to 1, with 0 indicating perfect equality (all households have the same income) and 1 indicating perfect inequality (one household controls all the income). The Gini coefficient for pre-tax, post-transfer income is 0.470 in 2012. After deducting taxes and including the value of near-cash transfers, the Gini falls to 0.421. Similarly, the share of total income accruing to the poorest 20 percent of households (bottom quintile) rises from 4.3 to 5.1 percent while the share accruing to the top 20 percent (top quintile) falls from 51.5 to 47.6 percent.

Housing subsidies reduce inequality. Without housing subsidies and the mortgage interest and real estate tax deductions, inequality as measured by the Gini coefficient is 0.424 (table 1). When housing subsidies are added to income, the Gini falls to 0.418. The share of income accruing to the bottom quintile rises from 4.9 to 5.2 percent, and the share accruing to the top quintile falls from 47.6 to 47.4 percent.

The ratio of incomes at different points in the income distribution provides another way to see the equalizing impact of housing subsidies. Without subsidies and the mortgage interest and real estate tax deductions, a household in the 90th percentile has 9.4 times as much income as a household in the 10th percentile. With housing subsidies, the 90:10 income ratio falls to 8.6. Similarly, the ratio of a median household's income to that of a household in the 10th percentile falls from 4.3 to 3.9. Because only lower-income households receive housing subsidies, adding those subsidies back into income has no effect on the ratio of 90th percentile–income to median-income households.

The mortgage interest and real estate tax deductions slightly increase inequality. When the value of those deductions and housing subsidies is added to income, the Gini coefficient rises from 0.418 to 0.421, the share of income accruing to the bottom income quintile falls from 5.2 to 5.1 percent, and the share accruing to the top quintile rises from 47.4 to 47.6 percent. The 90:10 income ratio rises from 8.6 to 8.8 while the ratios of income between the 90th percentile and the median and the median and the 10th percentile do not change.

On net, the equalizing effects of housing subsidies outweigh the disequalizing effects of the mortgage interest and real estate tax deductions on the post-tax, post-transfer distribution of income. Though the total value of housing subsidies is about half that of the mortgage interest and real estate deductions, those subsidies accrue to low-income households and represent a larger share of those households' incomes than the deductions represent for higher-income households. As such, benefits targeted at low-income households will have a stronger equalizing effect than the disequalizing effect of the same or even larger benefits targeted at high-income households.

That said, the progressivity of the tax code and noncash transfers is far larger than the effects of housing subsidies and the mortgage interest deduction considered alone.

TABLE 1

The Effect of Housing Subsidies and the Mortgage Interest and Real Estate Tax Deductions on the Distribution of Post-Tax, Post-Transfer Income

	Income without housing subsidies and the mortgage interest and real estate tax deductions ...	plus housing subsidies...	plus the mortgage interest and real estate tax deductions (post-tax, post-transfer income)
Gini coefficient	0.424	0.418	0.421
Income shares by quintile (%)			
Bottom	4.9	5.2	5.1
2nd	10.2	10.2	10.1
3rd	15.3	15.2	15.2
4th	22.1	22.0	22.0
Top	47.6	47.4	47.6
Percentile ratios			
90:10	9.4	8.6	8.8
90:median	2.2	2.2	2.2
Median:10	4.3	3.9	3.9

Source: Calendar year 2012 data from the March 2013 CPS, adjusted and enhanced by TRIM.

Notes: Post-transfer income includes the cash value of near-cash benefits like food stamps. Income is adjusted for family size. Households with negative incomes are excluded.

Notes

1. TRIM is maintained and developed at the Urban Institute; it is funded and copyrighted by the Department of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation (ASPE). For more information about TRIM, see <http://trim3.urban.org/T3Welcome.php>. This analysis rests on the foundation of 2012 simulations produced under ASPE funding. Because use of the data involves assumptions, the conclusions presented in this brief are attributable only to the authors.
2. This value is consistent with HUD's 2012 budget, which provided \$34 billion for rental assistance through public housing, tenant-based rental vouchers, and project-based rental vouchers (see <http://portal.hud.gov/hudportal/documents/huddoc?id=CombBudget2013.pdf>).

3. We also account for the small increase in food stamp benefits that could occur if families were paying higher rent because they do not have subsidized housing.
4. TRIM statistically matches data from deidentified tax-filing units in the Internal Revenue Service's Statistics of Income Public Use File to respondents in the CPS. Tax data for individual households come from 2008 but are adjusted to meet aggregate 2012 totals.
5. Households that report negative incomes are dropped from the analysis. Negative income results from business and farm income and expenditures. As such, it is an unreliable measure of that household's resources.

About the Authors



Gregory Acs is the director of the Income and Benefits Policy Center at the Urban Institute, where his research focuses on social insurance, social welfare, and the compensation of workers. He recently completed a study of the factors contributing to persistently high unemployment in the United States and policy responses to that problem. In addition, Acs has studied the low-wage labor market, changes in welfare policies and how they have affected welfare caseloads and the well-being of low-income families, and how state and federal policies affect the incentives families face as they move from welfare to work. Acs holds a PhD in economics and social work from the University of Michigan.



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Acknowledgments

This brief was funded by Housing Authority Insurance, Inc., (HAI, Inc.), to provide fact-based analysis about public and assisted housing. We are grateful to them and to all our funders, who make it possible for Urban to advance its mission. Funders do not, however, determine our research findings or the insights and recommendations of our experts. The views expressed are those of the authors and should not be attributed to the Urban Institute, its trustees, or its funders.



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