

Congressman Vito J. Fossella (NY-13)

Testimony

Subcommittee on Select Revenue Measures
House Ways and Means Committee

November 16, 2005

Chairman Camp and distinguished members of the Ways and Means Committee,

Thank you for the opportunity to testify today about tax reform issues that are important to the people of Staten Island and Brooklyn. While I'm sure you have had ample opportunity to hear from the sitting members on the committee, I want to focus on two critically-important tax deductions -- the deduction for state and local tax and the deduction for mortgage interest.

Eliminating either or both of these deductions would amount to a massive tax hike of thousands of dollars a year on middle- and low-income Americans. For that reason alone, I cannot support any proposal that eliminates these deductions. While I support tax reform efforts and am a strong proponent of enhancing incentives to encourage Americans to save and invest -- and I applaud the Committee's hard work in these areas -- there is no benefit whatsoever to the people of New York to eliminate the deductions for state and local taxes and for mortgage interest.

I'd like to begin by speaking about the issue of state and local tax deductions. If this deduction is eliminated, New York would be the hardest hit state in the nation, losing \$37 billion a year in federal tax deductions, according to the Internal Revenue Service (IRS). New York City residents could expect to see their IRS bills jump by 11-percent, or about \$3.4 billion a year, according to the New York City Independent Budget Office.

More to the point, roughly 3.2 million mostly middle- and low-income households in New York claim the deduction annually, with an average family saving as much as \$5,600 annually. Indeed, it is a major factor in alleviating the high tax burden imposed at the federal, state and local levels.

Furthermore, we are all familiar with the basic problem of the tax code: It is out of control. It is so complex and long-winded that Americans now spend 6.42 billion hours on tax forms and record-keeping -- time they could otherwise devote to their families, hobbies or working a few more hours to boost their income. Sadly, not even tax experts truly understand the code. More times than not, different preparers, including different IRS professionals, provide different answers to the exact same question. As a result, productivity is being lost on literally trillions of dollars of excessive tax liabilities, tax preparation costs and lost man-hours.

The deduction for state and local taxes has substantially eased this burden. The relief from state and local taxes is of major importance. Speaking as a New Yorker, recovery from the twin economic punches of 9-11 and the recession was difficult enough, but fortunately the deduction provided some cushion.

One bill that eases the tax burden is H.R.703, the AMT Middle Class Fairness Act of 2005. The bill would allow those who would still fall subject to the AMT to be able to deduct their state and local taxes from the AMT. Regular taxpayers who itemize on their returns can claim a deduction for state and local tax, including property tax and state income tax. However, these deductions are not allowed under the AMT. Moreover, residents of high-

tax states like New York are increasingly finding themselves subject to the AMT. HR 703 is certainly a step in the right direction.

The deduction for mortgage interest is also vital to ensuring long-term economic growth. Roughly 37.2 million taxpayers claimed this deduction in 2002, writing off \$336.6 billion -- or about \$9,000 per taxpayer, according to MSN Money. The deduction represented about 37% of itemized deductions and generated slightly more in deductions than itemized deductions for deductible state and local taxes and twice as much in deductions as charitable donations. In addition, more than 60% of families who claim the deduction have household incomes between \$60,000 and \$200,000, according to the IRS, making it an important tax-saving tool for many middle-income Americans.

A recent analysis by the National Association of Realtors found that altering this deduction could lead to a drop in home prices of as much as 15%. Such a decline would endanger the strength of the housing market, which many analysts believe helped bolster the U.S. economy from a more serious and longer-lasting recession in 2002 and 2003.

Currently, the only legislation supporting preserving the deduction is H.Con.Res.272. While I strongly support this resolution, I believe we must work on a more substantive initiative to preserve this essential deduction. Toward that end, I have taken the lead in securing the support of 22 Members of the New York State delegation to oppose any proposal that would eliminate the deduction for mortgage interest. We conveyed our opinion in a letter to Secretary Snow this week. I have included this letter in my statement for the record.

All the arguments against eliminating this deduction pale in comparison to the fact that owning one's own home really is part of the American dream. We currently have the highest rate of homeownership in our nation's history. As a result, we are strengthening communities and giving Americans a greater stake in the future of their neighborhoods.

The deductions for state and local taxes and for mortgage interest come as a saving grace to the New York families that I represent. They help families have more of their hard-earned money and allow the American people to decide how best to spend their money. Come April 15th, Staten Island and Brooklyn residents -- along with tens of millions of Americans -- utilize these deductions to turn a check *to* the government into a check *from* the government.

Reform of the tax code is a long-delayed project of critical importance to the economy. However, it will certainly not be an easy task, and I am glad to be a part of the debate. I applaud the Committee's work to date and I look forward to continuing to work with you in the week and months ahead.

Once again, thank you for this opportunity to testify.