

Armey Defends Plan For Flat Tax, Calls It Help to Homeowners

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House Majority Leader Richard K. Armey (R-Tex.) countered criticisms yesterday that his "flat tax" proposal, which calls for scrapping the deduction for mortgage interest payments, would drive down home values and send shock waves through the financial system.

In a speech at the National Press Club, Armey argued that his proposal would benefit homeowners over time by lowering long-term interest rates and stimulating economic growth.

"What the homeowner loses in deductions, he gains in lower interest rates," he said. "And in fact he comes out ahead in the deal, because the flat tax ends the bias against saving, causing the capital pool to swell and driving interest rates down even further."

Armey also argued that homeowners "are not as wedded to this supposedly sacred deduction as you might think." He cited a recent poll by Citizens for a Sound Economy, a conservative think tank, of 800 people who bought homes in the last three years.

That survey found that 67 percent of those questioned said they would "support tax reform that resulted in doing away with the home mortgage interest deduction if that loss is offset by a reduction in your tax bill of a similar amount."

Armey's plan, which has gained the most widespread attention of the various tax reform proposals put forth by Republican legislators ahead of the 1996 election, has come under heavy fire from housing industry advocates in recent months.

"Under a flat tax scenario" such as the one proposed by Armey, "the clear losers . . . are middle-income American homeowners who would see the value of their homes drop an

tial real wealth in housing" that could "curb consumer purchases as individuals attempt to rebuild their balance sheets."

The Realtors' study said a flat tax would yield tax gains for businesses and lower prices for new home buyers, but reduce property values for the nearly 65 percent of all Americans who already own homes.

Armey and Sen. Richard C. Shelby (R-Ala.), who is co-sponsoring the flat tax legislation, have dismissed the DRI/McGraw-Hill study as flawed. "I do not know how much the [Realtors' group] paid DRI for such skewed data, but they must have paid premium," Shelby wrote in a letter to his congressional colleagues that challenged the study on four points.

In response, DRI Executive Director Roger E. Brinner sent a letter to senators saying that the Realtors "had no control or influence over our analysis" and that Shelby's letter "has serious errors."

Similarly, Kent Colton, executive director of the National Association of Home Builders, cautioned that the plan might have far-reaching economic effects, such as causing a sharp drop in consumer confidence or an increase in the default rate on real estate-related loans.

The home builders' group has not taken an official stand on the flat tax.

Unlike the current tax system, which taxes households at one of five different rates according to their income and allows exemptions for such items as home mortgage interest and state and local tax payments, Armey's plan would impose a flat rate of 17 percent for everyone beyond a certain income level and do away with all other personal exemptions.

Armey's speech marked the introduction of a revised version of the flat tax plan he proposed last year. The new plan lowers the income level at which a typical family of four would be exempt from taxation to \$33,300 from about \$36,000. An Armey spokesman said the threshold was lowered to ensure that the proposal met his target of reducing federal tax revenue by \$40 billion.

The new bill also includes a provision that would require a three-fifths "super-majority" in Congress to raise the flat rate above 17 percent or create new loopholes. "We are absolutely determined that the flat tax stay flat," Armey said.

average of 15 percent," Stephen D. Driesler, National Association of Realtors senior vice president, said yesterday.

Driesler's warning reflects the findings of a study conducted earlier this year for the real estate group by DRI/McGraw-Hill Inc., an economic forecasting firm. The study concluded that, in the short-term, Armey's flat tax would depress the value of the average home by at least 15 percent, resulting in a "loss of substan-