Tax panel recommends changing tax breaks for homebuyers, health insurance

WASHINGTON -- Oct. 13, 2005 -- A presidential panel says tax breaks that promote homeownership and encourage businesses to give workers health insurance should be changed to help more middle income families.

''Clearly, under present law, the higher income folks benefit the most from those two aspects of the tax code,'' former Sen. Connie Mack, chairman of the President's Advisory Panel on Federal Tax Reform, said Tuesday.

Decisions on specific changes to recommend could be made next week as the nine-member panel wraps up its work, Mack said.

The commission plans to issue a final report on Nov. 1.

At the White House, presidential spokesman Scott McClellan emphasized that the panel had not yet completed its recommendations. But, he said, ''We laid out some clear principles to the bipartisan advisory panel. And one principle we believe that is important is that the code should encourage home ownership and charitable giving.''

He sidestepped a question on whether that set the stage for a potential clash with the commission, just repeating that ''taxes should be applied fairly, and reform should recognize the importance of home ownership and charitable giving.''

The panel found that current tax breaks for homeowners, such as the mortgage interest deduction, encourage wealthier taxpayers to buy bigger houses and do little to help others purchase homes.

That contributes to rising home prices and pushes less wealthy taxpayers toward risky loans, said Liz Ann Sonders, chief investment strategist at Charles Schwab. ''We are starting to see some significant pain here,'' she said.

One change discussed would lower the $1 million limit on mortgages eligible for the interest deduction to an amount closer to average housing prices, with adjustments for geographical differences. The panel also considered converting the current deductions into a credit, among other ideas.

On health insurance, the panel recommended capping the unlimited tax breaks available to businesses and workers. Current tax laws let employers take a deduction for their employees' health insurance, and employees pay no tax on the value of the insurance.

Experts have told the panel that those incentives benefit wealthier workers at the expense of others and contribute to the number of uninsured.

The panel considered an idea limiting tax breaks for health insurance to the roughly $11,000 benefit provided to members of Congress and their families, but reached no consensus. The panel also could not agree whether to subject businesses or workers to the limitation.

John Breaux, who noted that he might be the only member objecting to the idea, questioned the fairness of forcing employees to pay higher taxes but leaving employers' tax benefits alone. ''How can we do it one way and not the other?'' asked Breaux, the panel's vice chairman.

At a prior meeting, the panel agreed to call for abolishing the alternative minimum tax, a levy originally intended to prevent wealthy individuals from escaping taxes but one that affects more people each year.

The president asked the panel to develop several recommendations to change the nation's tax laws. The panel rejected the idea of replacing the current income tax system with a national sales tax, voicing worries about high tax rates and rampant tax evasion.

The panel weighed whether the government should collect some money through a value-added tax, a levy used widely in Europe that imposes a tax on the increased value of a product at each stage of production.

Panel members discussed a long list of problems with the value-added tax, from increased complexity to a bigger tax burden on middle-class families, leading Mack to predict the panel would not reach a consensus and recommend the idea.