



The Mortgage Interest Deduction: Background and Statistics

*Prepared by the Economics and Housing Policy Group
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Summary

- Deductions for mortgage interest have been part of the tax code since its inception in 1913.
- The mortgage interest deduction (MID) is a cornerstone of American housing policy.
- Limiting the deduction would be harmful to current home owners and future home buyers.

Tax Rules for the Mortgage Interest Deduction

- Home owners may deduct interest from up to \$1 million of acquisition mortgage debt and up to \$100,000 of home equity loan debt.
- Amounts were set in 1987 and have not been adjusted for inflation.
- Mortgages for a principal residence and second (non-rental) home qualify.
- Mortgage interest paid for the purpose of acquiring, building or substantial improving a qualified home may also be claimed against AMT (interest payments allocable to a home equity loan used for other purposes may not be deducted against AMT).

Public Support for the Mortgage Interest Deduction is Strong

- Owners and renters think tax incentives to promote homeownership are reasonable.
 - 72% of home owners agree and 82% of renters
- 81% of the public feels that the mortgage interest deduction should remain in the tax code (compared to 82% for medical expenses, 76% for state/local taxes, and 66% for charitable deductions).
- Support remains strong across party lines.
 - 69% of Republicans, 70% of Independents, and 83% of Democrats think it reasonable to have tax incentives for homeownership
- 70% of the public would oppose a political candidate who proposed eliminating the mortgage interest deduction.
- *Source: Public Opinion Strategies; September 9-12, 2010*

The Mortgage Interest Deduction and Housing Prices

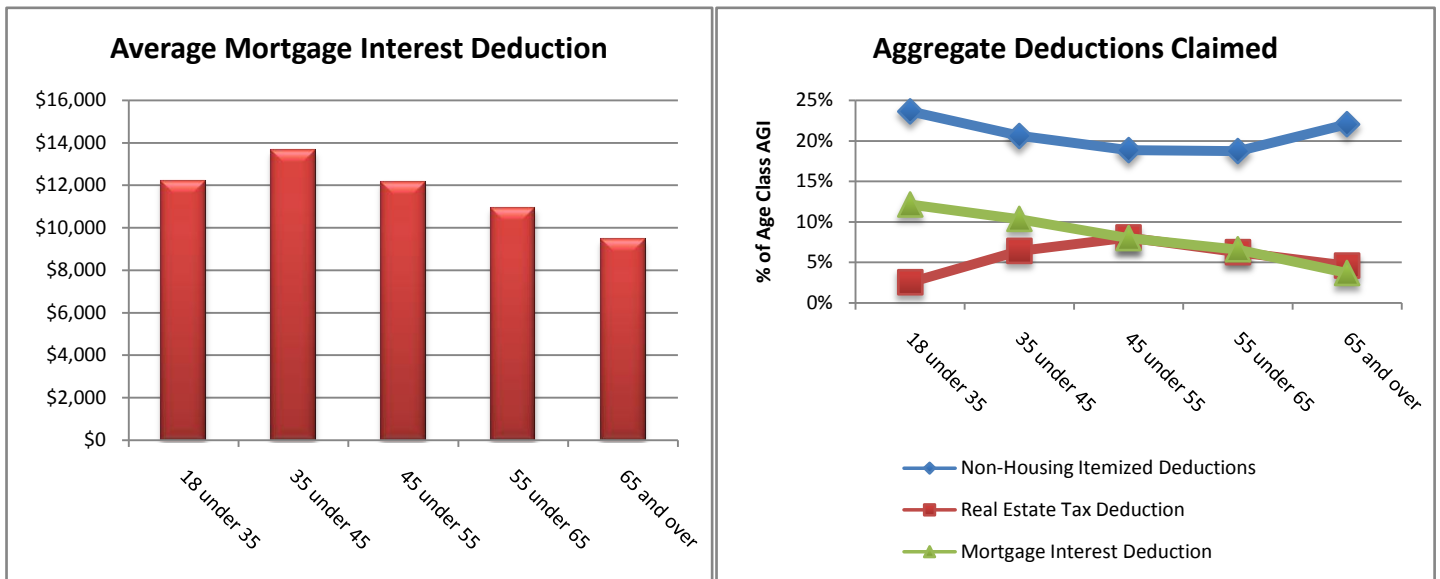
- Home owners do not expect to lose their mortgage interest deduction, and prospective buyers anticipate taking the deduction. Changes to these “rules of the game” would have a significant impact on the market in terms of home buyer and home owner behavior.
- As an example, a Brookings study found that limiting mortgage interest deductions to a 28% maximum rate would cause metropolitan housing prices to fall by more than 10%.
- Other changes that might undermine consumer confidence in the permanence of the mortgage deduction would likely have a similar impact on the market.
- The Great Recession was characterized by dramatic declines in home prices, resulting in lost economic growth and jobs – housing policy uncertainty will weaken the economic recovery.

Aggregate Statistics

- The 2010 tax expenditure estimate for the MID is \$104 billion (*Source: JCT*)
 - Note not a revenue estimate; actual revenue from a proposal to eliminate the deduction would be significantly smaller due to taxpayer portfolio rebalancing
- 68% of the tax benefit from the mortgage interest deduction goes to taxpayers with less than \$200,000 in economic income (same taxpayers pay only 43% of taxes, so deduction makes tax system more progressive, not less) (*Source: JCT*)
- 89% of taxpayers benefitting from the deduction make less than \$200,000 (*Source: JCT*)
- Since 2000, 86% of mortgage interest paid has been claimed as deduction on a tax return (most mortgage interest payers are itemizers and thus non-itemization status negatively affects few homeowners) (*Source: NAHB calculations of BEA and IRS SOI data*)

The Importance of the Deduction for Younger Households

- The deduction is most valuable for younger households who tend to be recent home buyers, with small amounts of home equity and growing families due to marriages and children.
 - This explains strong renter support in terms of planned future claims of the deduction
- IRS data indicates that the largest deduction amounts are for those aged 35 to 45; and as a share of household income, the largest amounts are for those aged 18 to 35.
- 74% of the deduction is claimed by those under age 55; 30% by those aged 35 to 45.
- *Source: NAHB Research: Housing Tax Incentives: Age Distribution Analysis*



Typical Tax Savings Due to Homeownership Rules

- For a typical home owner with \$54,000 in taxable income and a \$180,000 mortgage, the deductions for mortgage interest and real estate taxes are worth \$7,500 during the first five years of homeownership.
 - This is net – or in excess – of the foregone standard deduction
- For the first 12 years of homeownership, these deductions are worth approximately \$17,000.
- *Source: NAHB Research: The Tax Benefits of Homeownership*