



Just the FACTS...

... about the mortgage interest deduction

The mortgage interest deduction (MID) allows homeowners to deduct from their taxable income the interest payments on home mortgage balances up to \$1.1 million and home equity loans up to \$100,000.

1 Fact: Homeownership rates unaffected by MID: Homeownership rates have remained relatively constant over the last 50 years – increasing from 62 percent in 1960 to 65 percent in the second quarter 2013.

2 Fact: Repealing MID may be better way to promote homeownership: The MID has had the effect of increasing home prices. Removing the MID may result in a decrease in the prices of homes and a corresponding increase in homeownership rates.

3 Fact: Benefits of MID flow to relatively few taxpayers: According to the Joint Committee on Taxation (JCT), “the percentage of all taxpayers claiming a mortgage interest deduction has been relatively stable at between 21 and 26 percent since 1991.”

4 Fact: Benefits of MID benefit higher income taxpayers disproportionately: According to JCT data, taxpayers with income between \$10,000 and \$20,000 made MID claims worth a total of \$48 million, 0.07 percent of total MID costs in 2012. Taxpayers with income levels between \$100,000 and \$200,000 made MID claims worth a total of \$29 billion, or 42.6 percent of total MID costs in 2012.

5 Fact: MID is the largest explicit tax deduction for households in the federal income tax code. JCT estimates that it will reduce revenues by \$69.7 billion in 2013 and by \$379 billion over the five years from 2013 to 2017.

Our Take: The MID is a failed federal tax policy by any measure: it makes the tax code more inefficient by distorting economic activity in harmful ways and it will cost taxpayers in excess of \$379 billion over the next five years. Replacing the mortgage interest deduction with a refundable credit and reducing the size of the mortgages eligible for the credit could distribute benefits more equitably, help reduce overinvestment in housing, and also increase revenues.

