



Mortgage Interest Deduction Vital to Housing Market

Article From HouseLogic.com

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Published: January 11, 2010

The home mortgage interest deduction saves the average homeowner thousands of dollars at tax time, supports home values at the community level, and helps American homebuyers get into their first house.

Current homeowners support the mortgage interest deduction not just because it saves them money-over time, about three-quarters of American taxpayers will benefit from the mortgage interest deduction-but also because they know it's integral to the housing market.

Mortgage deduction savings

Having a tax deduction for mortgage interest makes owning a home more affordable because the deduction lowers the amount of tax you pay. U.S. Census data shows 37% of homeowners with mortgages spend more than 30% of their income for housing. Paying less for housing means having more disposable income for savings and other household expenses.

Increasing housing affordability increases the number of renters who can afford to buy a home of their own. Increasing the number of homebuyers helps keep home prices stable for those who already own homes by ensuring a steady stream of new buyers.

How the deduction works

In general, any homeowners who pay U.S. taxes and who itemize their taxes can deduct mortgage interest attributable to primary residence and second-home debt totaling \$1 million, and interest paid on home equity debt of as much as \$100,000.

Mortgage interest deduction threatened

In recent years, the mortgage interest deduction has come under attack. President Obama's fiscal year 2010 budget proposed limiting the value of the mortgage interest deduction for upper-income taxpayers, by allowing them to deduct only 28 cents on the dollar, even if they're in a 33% or 35% tax bracket and can now deduct 33 or 35 cents on the dollar.

In August of 2009, the Congressional Budget Office suggested two ways Congress could cut spending by changing the mortgage interest deduction:

- Reduce the \$1 million cap by \$100,000 a year beginning in 2013 and ending at \$500,000 in 2018. This would generate \$41.4 billion in additional revenues over 10 years, CBO says.

- Change the mortgage interest deduction to a 15% tax credit, which would increase revenues by \$387.6 billion over 10 years.

In the past, members of Congress have suggested other mechanisms for eliminating or limiting the mortgage interest deduction. None of those has ever gained traction.

Opponents question fairness

Those who want to eliminate or reduce the mortgage interest deduction argue that it primarily helps the wealthy, since high-income taxpayers are more likely to itemize their deductions and to own homes. About 90% of taxpayers earning more than \$100,000 itemize, while only 18% of those earning less than \$50,000 follow suit, the Tax Foundation estimates.

Taxpayers who don't itemize deductions, however, do benefit from the so-called "standard deduction," which simplifies taxes for those with relatively straightforward financial circumstances.

Those who could-but don't-take the deduction often save more by using the standard deduction than itemizing. Therefore, they're getting a greater tax benefit, in relative terms, than those who itemize.

More than 60% of the families who claim the mortgage interest deduction have household incomes between \$60,000 and \$200,000, NAR estimates.

Only 2% of those taking the deduction are high-income taxpayers. What's more, a disproportionate number of those high-income taxpayers live in areas where housing is especially expensive, such as California and New York.

In high-cost housing markets, lowering the \$1 million cap would add a tax burden onto families who already must pay high prices for homes.

Protecting the deduction promotes housing

People don't buy homes because of the mortgage interest deduction. They buy homes to satisfy social, family, and personal goals. As the cornerstone of a healthy community, homeownership is the basis for positive community involvement and a family's first step on the ladder to wealth.

In supporting the mortgage interest deduction, you help ensure that tomorrow's families can follow the same path to homeownership that so many of us have already traveled.

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