

## PRESERVE THE MORTGAGE INTEREST DEDUCTION

**OBJECTIVE:** As Congress and the Trump Administration explore comprehensive tax reform, it is essential for continued economic growth and the health of the housing industry that the mortgage interest deduction be preserved as part of the tax code.

**CORNERSTONE OF AMERICAN HOUSING POLICY:** The mortgage interest deduction (MID) has been part of the tax code since its inception in 1913 and is the cornerstone of American housing policy. Homeowners may deduct interest from up to \$1 million of acquisition mortgage debt and up to \$100,000 of home equity loan debt. These amounts were set in 1987 and have not been adjusted for inflation.

The deduction has effectively served as a middle-class tax break and is particularly beneficial to younger households and larger families. According to the National Association of Home Builders, nearly two-thirds of the benefits of the mortgage interest deduction are claimed by those earning between \$50,000 and \$200,000, and over half have incomes of less than \$100,000. The deduction is also an important progressive element in the tax code: taxpayers earning less than \$200,000 pay only 43 percent of all income taxes, meaning these deductions make the tax code more progressive and fair.

Internal Revenue Service 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. Larger families also benefit more from the deduction. Moreover, the vast majority of homeowners benefit from the mortgage interest deduction. Since 2000, 86 percent of all the mortgage interest paid has been claimed on a tax return as an itemized deduction.

An underappreciated benefit of the mortgage interest deduction is the allowance to deduct interest on a second home. Many homeowners have owned a second home without realizing it. When a homeowner sells their home and purchases another, the person effectively owns two principal residences in a given tax year. Further, the second home mortgage interest deduction rules allow up to 24 months of construction loan interest on a newly-constructed home to be claimed while the family resides in their existing principal residence.

Home owners do not expect to lose their mortgage interest deduction, and prospective buyers anticipate taking the deduction. Changing “the rules of the game” would have a significant impact on the housing market in terms of owner and buyer behavior.

Eliminating the mortgage interest deduction would have a negative impact on housing: after-tax housing costs would increase and demand for housing would decrease. In turn, reduced demand would depress home prices, producing a sizable loss for existing home owners that would have a drag on the economy.

**BENEFITS TO HOME OWNERS:** To better understand the benefits of the mortgage interest deduction, consider the following. A family with a joint income of \$80,000 and a mortgage of \$180,000 at 5.5 percent interest will save \$7,050 in the first five years of home ownership. The amount of the deduction declines slightly each year as the interest payment drops and the loan principal payment increases.

The deduction is particularly helpful to younger and recent home buyers, who are paying more interest in the early years of a mortgage. According to a National Association of Realtors survey, the median first-time buyer is 32 years-old (tying an all-time high), has \$72,000 in household income, and purchases a home for \$182,500.

As first-time home buyers are older than they have ever been, modifying the mortgage interest deduction would make purchasing a home even more challenging for prospective home owners. In 2014, 33.6 million households claimed the deduction with an average tax savings of \$2,660.

**LEGISLATION:** There is not currently a comprehensive tax reform package that includes modification or elimination of the mortgage interest deduction. However, some tax reform proposals have included doubling the standard deduction that would effectively negate use of the MID for all but the wealthiest taxpayers.

**NLBMDA POSITION:** NLBMDA opposes any proposal reducing or eliminating the mortgage interest deduction as part of comprehensive tax reform. The consequences would be devastating for home owners, the housing market and the nation's economy.

Americans overwhelmingly oppose any action by Congress to tamper with the deduction, which has been a cornerstone of American housing policy since the inception of the tax code over 100 years ago and supports the aspirations of families at all income levels to become home owners. In addition, NLBMDA opposes the “double taxation” on homeowners that would occur by repealing the state and local tax deduction.

**REQUEST:** NLBMDA encourages members of Congress to preserve the mortgage interest deduction and its role as a cornerstone of American housing policy.

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