

Talking Points: Mortgage Interest Deduction

As the leading advocate for homeownership, the National Association of REALTORS® aggressively supports the mortgage interest deduction (MID) because it helps people become and remain homeowners.

The MID has been part of the federal tax code since it was first enacted in 1913.

A home purchase – the largest investment most families will ever make – builds family wealth, provides tax revenues for local governments and stimulates growth in all housing-related industries.

People with both low and middle incomes use the MID. According to the most recent IRS tax return data available, 63 percent of the families who claim the MID earn between \$50,000 and \$200,000 per year.

While in any particular year only about one-third of taxpayers itemize, of the taxpayers who do itemize deductions, more than 81 percent take the MID.

NAR strongly opposes any attempts to alter the current tax treatment of mortgage interest. Any changes to the mortgage interest deduction could erode the value of homes and homeownership, effectively closing the door on the American dream.

An NAR survey of home buyers found that both first-time buyers and repeat buyers ranked the desire for tax incentives as an important reason to buy.

People usually don't buy homes because of the MID. They buy homes to satisfy social, family and personal goals. The MID does, however, facilitate homeownership by reducing the carrying costs of ownership.

The MID remains the most effective tax incentive to expand homeownership. Homeownership provides important social and economic benefits. It is the cornerstone of a healthy community, the basis for positive community involvement and a family's first step on the ladder to wealth.

The national homeownership rate has stood around 68 percent for the past five years. During that period, there has remained a consistent gap in ownership rates between Caucasians and African Americans, Hispanics and other minority groups. Eliminating the MID would decrease homeownership rates among all groups, but would be a serious setback for minorities.

The tax deductibility of interest paid on mortgages is both a powerful incentive for homeownership and one of the simplest provisions in the tax code. It should not be targeted for change.

NAR has been both vocal and successful in protecting the MID, yet proposals to eliminate it or scale it back continue to surface in Congress. Policymakers and voters have a legitimate desire to simplify the tax system, but tampering with the deductions for mortgage interest and property tax would be unwise, if not disastrous.

Current law permits deductions of the interest paid on mortgage debt of up to \$1 million on a primary residence and one additional residence. In addition, the interest paid on home equity loans of up to \$100,000 may be deducted.

NAR opposes any tax reform plan, including a flat tax plan, that does not retain the deductibility of mortgage interest. NAR also opposes any effort to convert the MID from a deduction to a tax credit.

A flat tax is a tax system in which all earned income is taxed. It has no deductions or exclusions. A single rate of tax applies to all individuals, regardless of income level. It's called a flat tax because this single rate applies to all income.

Flat tax and other tax code simplification plans threaten the MID. In the past, flat tax proposals have come before Congress as part of the ongoing debate over how best to reform the current tax system.

NAR believes true reform can be achieved only through legislation that simplifies regulations and moves to a lower overall tax burden. Tax reform proposals that result in unfair distribution of present tax levels, heavier total tax burdens, or disruption of markets are not desirable. NAR will remain vigilant in opposing any tax reform plan that excludes the deductibility of mortgage interest.

Updated May 9, 2008