



How Beneficial is the Mortgage Interest Deduction, Relatively Speaking?

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With all the hubbub in Washington surrounding the long-awaited 2017 tax reform, a few individual components of the reform are getting more attention than others. One of those is the mortgage interest deduction, which reduces taxpayers' taxable income by the amount of interest paid on their home mortgage of up to \$1 million. The [GOP's Better Way agenda](#) calls for making the mortgage interest provision “more effective and efficient” and suggests that, as a result of “larger, simpler standard deduction[s]” taxpayers will choose not to itemize deductions like that of their mortgage interest.

Housing, mortgage, and real estate groups, all long-time advocates of the mortgage interest deduction, have argued that any such policy change would discourage taxpayers from buying homes as they would see their tax benefits diminished – for example, the National Association of Realtors suggests that a homeowner earning \$65,000 per year who owns a \$263,000 condo [would see their tax benefits reduced from \\$3,325 to \\$166](#). On the flip side of the calculation, the Congressional Budget Office (CBO) estimates that approximately 40 million taxpayers claim the mortgage interest deduction each year which ends up [costing the federal government around \\$70 billion](#) annually.

But the federal government does a lot more than just give out tax breaks on mortgages to subsidize and incentivize homeownership. The chart below gives a few examples, including the \$700 billion mortgage-backed securities bailout during the financial crisis ([which some argue](#) has ended up being into the tens of trillions of dollars):

Agency	Program	Number Helped	Cost of subsidy
Treasury	Financial crisis bailouts		\$700 billion
IRS	Mortgage interest deduction	~40 million	\$70 billion
FHFA/Treasury	Making Home Affordable	>400,000	\$50 billion
FHFA/Treasury	Fannie Mae and Freddie Mac		\$43 billion
IRS	State/local property tax deduction	~40 million	\$15.9 billion
IRS	Capital gains exclusion		\$15.8 billion
IRS	First time homebuyer credit		\$13.6 billion
HUD	HOME Investment Partnership	~30,999 households	\$4.07 billion
HUD	Community Development Block Grant	~4,521 households	\$1.16 billion
USDA/HUD	Rural housing programs	~66,000	\$418 million

Source: [Congressional Budget Office Housing Database](#)

So, yes, the mortgage interest deduction helps a lot of homeowners, but it is also one of the most (if not *the* most) costly subsidies. Recently, the CBO proposed converting the mortgage interest deduction to a 15 percent tax credit for mortgage debt, which, it says, [would increase federal tax revenues by \\$51.7 billion](#) over nine years while continuing to promote homeownership. It remains to be seen how the next Congress will reform the tax code, but hysteria over modifying the mortgage interest deduction should be dismissed as there are myriad other federal government incentives and subsidies for buying a home.