The Mortgage Interest Deduction in the United States

Of the approximately 74 million owner-occupied houses in the United States in 2014, approximately 47 million or 64% had a mortgage[1].

In 2013, 33.0 million taxpayers in the United States claimed a deduction for mortgage interest (MID). The total amount deducted was $290 billion. This means that the average taxpayer claiming the MID deducted $8,900 from taxable income in 2013[2].

More recent data is not publicly available from the IRS, but the Joint Committee on Taxation estimates that the tax expenditure on the mortgage interest deduction in Fiscal Years 2014 to 2018[3] will be roughly $84 billion per year, sizable, but down notably from estimates over $100 billion in the past[4]. Using the JCT figure and data from the Federal Reserve on the value of owner occupied real estate[5], a present value analysis leads to the conclusion that the loss in real estate value would be 9 to 18 percent if the lost benefit of the MID were fully capitalized into the value of owner-occupied housing in the United States.

The estimate presented above is sensitive to assumptions about the discount rate. In this analysis we examined two potential frequently used discount rates: the risk free rate of return and the user cost of capital[6]. Another often used discount rate is the user cost of capital. For home owners this would be the mortgage rate, the cost of borrowing additional funds, which has ranged between 3.4 and 4.4 percent in the last three years. When the range of discount rates is applied, the estimated loss in real estate value ranges from 9 to 18 percent.

	Risk-Free Rate	User-Cost of Capital		
Discount Rate	2.3%	3.4%	3.9%	4.4%
Present Value of Benefit	$3.65 trillion	$2.47 trillion	$2.15 trillion	$1.91 trillion
Loss relative to Real Estate Value	18%	12%	10%	9%

[1] 2014 American Community Survey

[2] Statistics of Income data from the Internal Revenue Service; NAR Calculations

[3] Joint Committee on Taxation Tax Expenditure Estimates, published December 7, 2015 https://www.jct.gov/publications.html?func=startdown&id=4858

[4] See for example this estimate from the Joint Committee on Taxation done in 2010. http://www.jct.gov/publications.html?func=startdown&id=3642

[5] $20.7 trillion in 2014 Q4

[6] Economic literature on other taxes suggests that changes are fully capitalized into home prices at a 3 percent discount rate and infinite time horizon. A 3 percent discount rate was generally below the rate on 10-year Treasuries prevailing at the time the papers were written. The 10 year rates is used here as an oft used risk-free rated of return.