NAR Issue Summaries

Federal Tax / Mortgage Interest Deduction

NAR Committee:

Federal Taxation Committee

What is the fundamental issue?

Individuals are permitted to deduct interest paid on mortgage debt of up to $750,000. If the mortgage was taken out prior to December 16, 2017, and otherwise qualifies, the maximum amount is $1 million. The deduction is available for interest on mortgages for a principal residence and one additional residence. The $750,000 (or $1 million) limitation represents the combined allowable debt on two residences. Prior to the enactment of the Tax Cuts and Jobs Act of 2017, mortgage interest on up to $100,000 of debt on home equity loans or lines of credit also qualified for the deduction, even if the proceeds of the loan were used for personal reasons, such as a vacation or to pay off bills. However, since 2018, interest on home equity loans are deductible only to the extent the proceeds are used to substantially improve the home that secures the loan and the total of all mortgage loans for the first and second home do not exceed the limitation.

I am a real estate professional. What does this mean for my business?

For many decades, the mortgage interest deduction was a remarkably effective tool that facilitated homeownership. Before the changes made by the Tax Cuts and Jobs Act of 2017 took effect, about a third of all taxpayers in any given year itemized their deductions, and a high percentage of them were homeowners making mortgage payments. Thus, the tax law encouraged homeownership by incentivizing it. However, since 2018, only about one in ten taxpayers itemize their deductions. So, for the majority of homeowners, the tax code no longer encourages Americans to own a home instead of rent one. Many of those who still are able to itemize receive the benefit of the mortgage interest deduction, but these are most often not first-time buyers but taxpayers with higher incomes. Therefore, the deduction has been criticized as not targeting its benefits where they are most needed.

NAR Policy:

NAR strongly opposed the changes in the 2017 Act that limited the use of the mortgage interest deduction. And NAR continues to strongly support the mortgage interest deduction for those who can itemize. However, because it is quite unlikely Congress will reverse the change that led to the deduction being eliminated for most homeowners, NAR also supports a tax credit for buying and owning a home that is not based on the mortgage interest deduction. Rather, such a credit would be designed for those who want to purchase a home but are finding it difficult to afford one.

Opposition Arguments:

Opponents of NAR policy will say that only about a tenth of taxpayers itemize and thus benefit from the MID, and that the deduction encourages people to buy larger and more expensive homes than what they need. Some will also claim that it primarily benefits high-income Americans. For these reasons, opponents

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will say, the MID should be repealed.

Legislative/Regulatory Status/Outlook

The majority of the changes made by the Tax Cuts and Jobs Act of 2017, including the near doubling of the standard deduction that greatly minimized the use of itemized deductions such as the MID, are scheduled to expire at the end of 2025. Thus, a great deal of the law governing the way individuals are taxed is set to go back to the way it was in 2017, before the changes made by the Act took effect.

However, most observers believe that Congress is not likely to allow all of the tax provisions to revert back to their pre-2018 versions. Most Republicans, who sponsored the Tax Cuts and Jobs Act, want to see most or all of the changes made a permanent part of the law. No Democrats voted for the 2017 Act, and many of them have indicated they want to see at least some of the changes expire. However, there is a great deal of doubt that Democrats would support a reduction in the standard deduction. Many taxpayers believe a higher standard deduction was a positive change, and even some homeowners and policymakers do not appreciate the connection between a higher standard deduction and a decreased tax incentive to purchase and own a home. Therefore, while some changes to the tax law are likely when Congress deals with the expiration of most of the changes made by the 2017 Act, a reversal of the increased standard deduction is viewed as rather unlikely.

It was because of this dire outlook for the future of the MID that NAR's Board of Directors approved policy in May 2020 to support tax policies that provide an incentive to purchase and own a primary residence through a tax credit for households that no longer itemize deductions and thus currently receive no assistance through the federal tax system to become or remain homeowners.

Current Legislation/Regulation (bill number or regulation)

None at this time.

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