Mortgage Interest Deduction

The National Association of Realtors® aggressively supports the mortgage interest deduction (MID) because it helps people become and remain homeowners. The mortgage interest deduction 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.

Both low- and middle-income people use the mortgage interest deduction. According to IRS tax return data from 2002, a little more than 60 percent of the families who claim the mortgage interest deduction have household incomes between $60,000 and $200,000.
While in any particular year only about one-third of taxpayers itemize, of the taxpayers who do itemize deductions, more than 60 percent utilize 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 homebuyers found that first-time buyers, as well as repeat buyers, ranked the desire for tax incentives as an important reason to buy.

People 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. Homeownership 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 mortgage interest deduction remains the most effective tax incentive to expand homeownership. Homeownership provides important social as well as 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 stood at a high 69 percent of U.S. households in the first quarter of 2005. Though we've seen dramatic increases among minorities, there remains a gap in homeownership rates between white, African Americans, Hispanics and other minority groups. The elimination of the mortgage interest deduction would cause homeownership rates to drop.

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 mortgages 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.

Flat tax and other tax code simplification plans threaten the mortgage interest deduction. 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.

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, no matter what their income level. It's called a flat tax because this single rate applies to all income.

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