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# Repeal the Mortgage Interest Deduction? Hold the Applause!

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February 17, 2011

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# Major Criticisms of the Deduction

- **A tax break for owners, not renters**
  - **No help for first-time homebuyers**
  - **A tax break for the rich**
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# A Tax Break for Homeowners?

- Two aspects to homeownership
    - Your home is a place to live – consumer good
    - Your home is an asset – investment
  - Homeowner is both landlord and tenant –
  - **A landlord renting to himself or herself**
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# Homeowners and Landlords: What's Deductible?

	<u>Owners</u>	<u>Landlords</u>
■ Mortgage Interest	✓	✓
■ Property Taxes	✓	✓
■ Capital Gains	✓	✓
■ Maintenance		✓
■ Depreciation		✓
□ Accelerated Depreciation		✓
■ Net Rental Income	Not taxable	Taxable

# Housing Tax Expenditures (2007, in \$billions)

- Deductible by both landlords & homeowners
  - Mortgage interest \$ 79
  - Property taxes \$ 15
  - Capital gains exclusion \$ 37
    - Total \$131
- Excluded from homeowners' income only
  - Imputed rental income \$ 32
- Deductible by landlords only
  - Accelerated depreciation \$ 11
- **Net homeowner subsidy: \$21**
  - Partly offset by landlords' ability to deduct maintenance & homeowners' inability to deduct depreciation

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# No Help for First-time Homebuyers?

Median Income	\$ 55,000
Median House Price	\$150,000
Mortgage (10% down)	\$135,000
Mortgage Interest Rate	6.46%
Mortgage Interest	\$ 8,676
Property Taxes	<u>\$ 1,350</u>
Housing Deductions	\$10,026
Standard Deduction	\$10,000

(2007 data)

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# A Tax Break Just for the Rich?

(Adjusted Gross Income Above \$200,000 in 2007)

- 5% of households – “the richest 5%”
  - 55% of all income tax paid
  
  - 19% of home mortgage interest paid
  - 25% of home mortgage interest deduction\*
    - \*Approximate
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# Assets for Young Families – Age 30

- Checking account/MMMF 87%
  - Car 85%
  
  - 401(k) 40%
  - Home 40%
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# Assets for Young Families – Age 40

■ Checking account/MMMF	91%
■ Car	87%
■ Home	55%
■ 401(k)	67%
■ Value of 401(k)	\$36,000
■ Home equity (Net of mortgage)	\$75,000

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# Conclusions

- The deduction is not simply a tax break for homeowners
  - The deduction does help young families buy their first home
  - The deduction helps middle income families more than “the rich”
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