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THE MORTGAGE INTEREST DEDUCTION (MID)

What is the MID?

The Mortgage Interest Deduction (MID) is one of the largest tools the federal government uses to invest in homeownership. For taxpayers who itemize deductions, the MID allows them to deduct their mortgage interest from their taxable income for mortgages up to $750,000.[1]

Unfortunately, the MID's benefits mostly go to households with higher incomes, failing to support the low- and moderate-income (LMI) families who stand to benefit most from building wealth through homeownership.[2]

The Shortfalls of the MID

The MID's current structure benefits existing homeowners, as well as higher-income households who use it to take out larger mortgages and finance more expensive homes. In 2017, the top 40% of households, with incomes of more than $151,000, received over $2,500 in homeownership support from the MID, on average. The bottom 40% of households, with incomes under $50,000, received just $20 from the MID, on average.[3]

Despite being one of the largest tools the federal government uses to invest in housing and homeownership, the MID offers no support for renters to become homeowners. Today, nearly 50% of all U.S. renters are cost-burdened, meaning that they spend 30% or more of their income on housing expenses, such as rent and utilities.[4] This can make it difficult for those with limited incomes to set aside money for a down payment on a home.

MID Snapshot

1. The MID is a tax deduction that allows taxpayers to deduct their mortgage interest, up to $750,000, from their taxable income.
2. The MID tends to benefit wealthier households, providing little support to low- and moderate-income families and communities of color.
3. The 2017 tax law took a step towards making the MID more equitable, but the doubling of the standard deduction has caused the MID to be further concentrated among higher-income households.
4. Any cost-savings achieved through further reforms of the MID should prioritize low- and moderate-income families, including cost-burdened renters and first-time homebuyers.

Furthermore, the MID is shown to exacerbate the racial wealth divide and gender inequality in the U.S. Since households of color are less likely to own a home with a mortgage than White households, the MID's benefits tend to go to predominantly White communities.[5] Similarly, single women are less likely to be homeowners or to own a home with a mortgage, so they too receive little support from the MID.

The MID and the 2017 Tax Law

In part, the 2017 Tax Cuts and Jobs Act (TCJA) took a step in the right direction in terms of reforming the MID. Before the TCJA, taxpayers could deduct mortgage interest on mortgages up to $1 million, whereas now the limit is $750,000.[6] However, the TCJA also doubled the standard deduction, making the MID even more concentrated among higher-income households. Those with high incomes are more likely to itemize their deductions and thereby claim the MID. Lower-income households, on the other hand, tend to claim the standard deduction, and the recent change in the tax code makes them even more likely to do so. Ultimately, more reforms are needed in order for the MID to support LMI households on their path to building wealth through homeownership.

Ways to Improve the MID

For one, reforms to the MID should include support for renters and first-time homebuyers.[7] Renters, in particular those who are cost-burdened or have incomes below the poverty line, should not be excluded from housing tax benefits because they cannot afford to become homeowners. In addition, the MID should subsidize homeownership, not mortgages, by offering support to lower-income renters who wish to become homeowners. Some ways to do this would be to implement a renter's credit and use savings from MID reforms to assist renters and first-time homebuyers.

The MID's focus should also shift away from wealthier households to those with low and moderate incomes. One approach would be to convert the MID from a deduction to a refundable credit accessible to low- and moderate-income homeowners. Communities of color and women could also benefit from this approach, which would give them more equitable access to housing-related tax benefits.

Finally, to ensure that higher-income families do not receive a disproportionate share of federal homeownership benefits, the MID should be capped even further, and MID support for large homes and second homes should be limited.

***Resources*:**

- "Principles for Reform: Housing and Homeownership Tax Expenditures," Tax Alliance for Economic Mobility, January 2019, https://www.taxallianceforeconomicmobility.org/wp-content/uploads/2019/01/Tax_Alliance_Housing_and_Homeownership_Principles_2019-FINAL.pdf.
- "Reforming the Mortgage Interest Deduction: How Tax Reform Can Help End Homelessness and Housing Poverty," National Low Income Housing Coalition/United for Homes Campaign, https://nlihc.org/sites/default/files/MID-Report_0817.pdf
- "Misdirected Investments: How the Mortgage Interest Deduction Drives Inequality and the Racial Wealth Gap," Institute on Assets and Social Policy (IASP) and National Low Income Housing Coalition, https://heller.brandeis.edu/iasp/pdfs/racial-wealth-equity/racial-wealth-gap/misdirected-investments.pdf

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[1] Internal Revenue Service, "*Publication 936 (2018), Home Mortgage Interest Deduction*," (Washington, DC: IRS, 2019).
[2] Ezra Levin, Jeremie Greer and Ida Rademacher, "*From Upside Down to Right-Side Up: Redeploying $540 Billion in Federal Spending to Help All Families Save, Invest and Build Wealth*," (Washington, DC: Prosperity Now, 2014), 15.
[3] Tax Policy Center, Model Estimates: T18-0169 - Tax Benefit of the Itemized Deduction for Home Mortgage Interest, Baseline: Current Law, Distribution of Federal Tax Change by Expanded Cash Income Percentile, 2017 (Oct. 2018), https://www.taxpolicycenter.org/model-estimates/individual-income-tax-expenditures-october-2018/t18-0169-tax-benefit-itemized
[4] "Housing Cost Burden - Renters," 2019 Prosperity Now Scorecard, February 2019, Data Year: 2017, http://scorecard.prosperitynow.org/data-by-issue#housing/outcome/housing-cost-burden-renters.
[5] Laura Sullivan, Tatjana Meschede, Thomas Shapiro and Maria Fernanda Escobar, "*Misdirected Investments: How the Mortgage Interest Deduction Drives Inequality and the Racial Wealth Gap*," (Washington, DC, Waltham, MA: Institute on Assets and Social Policy and National Low Income Housing Coalition, 2017), 6.
[6] Internal Revenue Service, "*Publication 936 (2018), Home Mortgage Interest Deduction*," (Washington, DC: IRS, 2019).
[7] Tax Alliance for Economic Mobility, "*Policy Reforms: Homeownership and Housing*," (Washington, DC: Tax Alliance for Economic Mobility, 2019).