

The home mortgage interest deduction saves the average home owner thousands of dollars at tax time, supports home values at the community level, and helps American home buyers get into their first house.

Having a tax deduction for mortgage interest makes owning a home more affordable because the deduction lowers the amount of tax you pay. U.S. Census data shows 37% of home owners with mortgages spend more than 30% of their income for housing. Paying less for housing means having more disposable income for savings and other household expenses.

Increasing housing affordability increases the number of renters who can afford to buy a home of their own responsibly; increasing the number of home buyers helps keep home prices stable for those who already own homes by ensuring a steady stream of new buyers.

How the deduction works

In general, any home owners who pay U.S. taxes and who itemize their taxes can deduct mortgage interest attributable to primary residence and second-home debt totaling \$1 million, and interest paid on home equity debt of as much as \$100,000.

Mortgage interest deduction threatened

In recent years, the mortgage interest deduction has come under attack. Among the suggestions for cutting it back to deal with the deficit:

- * Reduce the mortgage interest deduction for upper-income taxpayers—they'd only receive 28 cents on the dollar, even if they're in a 33% or 35% tax bracket and can now deduct 33 or 35 cents on the dollar.
- * Reduce the \$1 million cap by \$100,000 a year.
- * Change the mortgage interest deduction to a 15% tax credit.

In the past, members of Congress have suggested other mechanisms for eliminating or limiting the mortgage interest deduction. None of those has ever gained traction.

Arguments against mortgage interest deduction

Arguments against the mortgage interest deduction center on who benefits and whether the government should support home ownership. They say:

- * It primarily helps the wealthy, since high-income taxpayers are more likely to itemize their deductions and to own homes. About 90% of taxpayers earning more than \$100,000 itemize, while only 18% of those earning less than \$50,000 follow suit, the Tax Foundation estimates.
- * Taxpayers who don't itemize deductions get to use the "standard deduction." They do that because it gives them a bigger tax break than itemizing to use the mortgage interest deduction.

* Ending or reducing the mortgage interest deduction would create a deep source of money for reducing the budget deficit.

* In the aftermath of the mortgage crisis, the U.S. needs to rethink its favored tax treatment of home ownership.

Arguments for mortgage interest deduction

Those who favor keeping the mortgage interest deduction say it helps middle-income families, who already pay nearly all U.S. income taxes. Plus, getting rid of the mortgage interest deduction would hurt home prices.

* More than 60% of the families who claim the mortgage interest deduction have household incomes between \$60,000 and \$200,000, estimates the NATIONAL ASSOCIATION OF REALTORS®.

* A disproportionate number of those high-income taxpayers live in areas where housing is especially expensive, such as California and New York. In high-cost housing markets, lowering the \$1 million cap would add a tax burden on families who already must pay high prices for homes.

* Home owners already pay 80% to 90% of the income tax in our country, and among those who claim the mortgage interest deduction, almost two-thirds are middle-income earners, says NAR Chief Economist Lawrence Yun. So home owners, who are the pillars of federal income tax revenue, would have to shoulder a bigger tax burden.

* Home values could fall 15%, says Yun, as buyers discount the value of the mortgage interest deduction in their purchase offers.

* It's faulty to link the mortgage meltdown to the country's support for home ownership. The meltdown is rooted in lax underwriting and faulty ratings by credit rating agencies of the securities backed by the mortgage, says Yun.

Protecting the deduction promotes housing. In supporting the mortgage interest deduction, you help ensure that tomorrow's families can follow the same path to home ownership that so many of us have already traveled.

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