T15-0231

Options to Reform the Mortgage Interest Deduction

Baseline: Current Law

Impact on Tax Revenue (billions of current dollars), 2016-25[1]

Proposal[2]	Fiscal Year										Total
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2016-2025
Option 1: Replace the Mortgage Interest Deduction with a 15 Percent Non-refundable Credit on the First $500,000 of Debt	1.2	5.1	10.9	17.4	23.1	26.9	29.1	31.1	33.0	35.1	212.9
Option 2: Reduce the Maximum Amount of Debt Eligible for the Mortgage Interest Deduction to $500,000	0.3	1.2	2.6	5.2	9.1	12.5	13.9	15.3	16.6	18.3	94.9
Option 3: Replace the Mortgage Interest Deduction with a 15 Percent Non-refundable Credit	0.9	4.1	8.8	13.7	17.5	19.8	21.1	22.3	23.3	24.5	156.1

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0515-3).

(1) Fiscal years. Estimates assume a 40-60 fiscal split; the actual effect on the timing of receipts could differ. Revenue estimates include the effects of microdynamic behavioral responses and assume that taxpayers would adjust their investment portfolio and pay down their mortgage balance if their tax benefit from mortgage interest was reduced.

(2) Option 1 would replace the deduction for mortgage interest with a 15 percent non-refundable credit on the first $500,000 of debt on a primary residence, second home, and/or a home equity loan. Option 2 would reduce the maximum amount of debt eligible for the mortgage interest deduction to $500,000 of debt on a primary residence, second home, and/or a home equity loan. Option 3 would replace the deduction for mortgage interest with a 15 percent non-refundable credit subject to current law limits ($1,000,000 of debt on a primary residence or second home, and $100,000 in home equity loans). Proposals are phased-in over 5 years beginning 01/01/2016 according to the following schedule: i) in Options 1 and 3, the deductible percentage of home mortgage interest paid would be reduced by 20 percentage points each year (80% in 2016, 60% in 2017, 40% in 2018, 20% in 2019, and fully eliminated in 2020 and beyond) and the credit rate would increase by 3 percentage points each year (3% in 2016, 6% in 2017, 9% in 2018, 12% in 2019, and 15% in all later years); ii) in Options 1 and 2, the limit on eligible debt would equal $900,000 in 2016, $800,000 in 2017, $700,000 in 2018, $600,000 in 2019, and $500,000 in tax year 2020 and beyond.