T13-0100

Options to Replace Mortgage Interest Deduction (MID) with with Non-Refundable Personal Tax Credit

Baseline: Current Law

Impact on Tax Revenue (billions of current dollars), 2014-2023 [1]

Proposal	Fiscal Year										Total
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2014-23
Option 1: Replace MID with 15 Percent Nonrefundable Credit and Cap Eligible Amount of Debt at $250,000 (unindexed) [2]	12.0	22.5	27.2	31.7	35.4	38.1	41.0	43.3	45.2	48.0	344.4
Option 2: Phase in Option 1 Over a 5 Year Period [3]	3.0	8.2	14.7	22.3	32.2	38.1	41.0	43.3	45.2	48.0	296.1
Option 3: Replace MID with 15 Percent Nonrefundable Credit and Cap Eligible Amount of Debt at $500,000 (unindexed)	7.4	14.1	17.4	20.5	22.8	24.3	25.9	27.0	27.7	29.1	216.1
Option 4: Phase in Option 3 Over a 5 Year Period [4]	2.9	7.8	13.4	18.9	22.5	24.3	25.9	27.0	27.7	29.1	199.5
Option 5: Replace MID with 15 Percent Nonrefundable Credit and Cap Eligible Amount of Debt at $750,000 (unindexed)	6.5	12.4	15.4	18.1	20.0	21.2	22.4	23.1	23.4	24.4	186.9
Option 6: Phase in Option 5 Over a 5 Year Period [5]	2.8	7.6	12.8	17.6	20.1	21.2	22.4	23.1	23.4	24.4	175.2
Option 7: Replace MID with 20 Percent Nonrefundable Credit and Cap Eligible Amount of Debt at $250,000 (unindexed)	2.0	5.3	9.0	12.6	15.4	17.3	19.4	20.9	22.0	23.9	147.7
Option 8: Phase in Option 7 Over a 5 Year Period [6]	0.4	1.1	2.6	5.6	12.6	17.3	19.4	20.9	22.0	23.9	125.8
Option 9: Replace MID with 20 Percent Nonrefundable Credit and Cap Eligible Amount of Debt at $500,000 (unindexed)	-4.1	-5.9	-4.0	-2.3	-1.3	-1.0	-0.6	-0.8	-1.2	-1.0	-22.3
Option 10: Phase in Option 9 Over a 5 Year Period [7]	0.3	0.6	1.2	1.3	-0.1	-1.0	-0.6	-0.8	-1.2	-1.0	-1.3
Option 11: Replace MID with 20 Percent Nonrefundable Credit and Cap Eligible Amount of Debt at $750,000 (unindexed)	-5.3	-8.0	-6.6	-5.5	-5.0	-5.1	-5.3	-5.9	-6.8	-7.3	-60.8
Option 12: Phase in Option 11 Over a 5 Year Period [8]	0.2	0.4	0.4	-0.2	-3.2	-5.1	-5.3	-5.9	-6.8	-7.3	-32.8

Source*:* Urban-Brookings Tax Policy Center Microsimulation Model (version 0412-8).

(1) Fiscal years. Estimates assume a 40-60 fiscal split; the actual effect on the timing of receipts could differ. Estimates assume a microdynamic behavioral response and assume that households would adjust their investment portfolio and optimally pay down their mortgage balance in response to a reduction in the tax benefit for mortgage interest. Revenue amounts reported are TPC estimates and may differ from official revenue estimates from the Joint Committee on Taxation. Proposals are effective 01/01/14.

(2) For all proposals, the cap on debt applies to the sum of mortgage origination debt on all residences plus home equity lines of credit.

(3) The cap on eligible debt would be $850,000 in 2014 and decline by $150,000 per year until reaching $250,000 for 2018 and thereafter. Taxpayers would be allowed to deduct 80 percent of eligible mortgage interest in 2014, decreasing by 20 percentage points per year until the MID would be completely eliminated in 2018 and thereafter. Taxpayers could claim a nonrefundable credit equal to 3 percent of eligible mortgage interest in 2014, increasing by 3 percentage points per year until hitting 15 percent in 2018 and thereafter.

(4) The cap on eligible debt would be $900,000 in 2014 and decline by $100,000 per year until reaching $500,000 for 2018 and thereafter. Taxpayers would be allowed to deduct 80 percent of eligible mortgage interest in 2014, decreasing by 20 percentage points per year until the MID would be completely eliminated in 2018 and thereafter. Taxpayers could claim a nonrefundable credit equal to 3 percent of eligible mortgage interest in 2014, increasing by 3 percentage points per year until hitting 15 percent in 2018 and thereafter.

(5) The cap on eligible debt would be $950,000 in 2014 and decline by $50,000 per year until reaching $750,000 for 2018 and thereafter. Taxpayers would be allowed to deduct 80 percent of eligible mortgage interest in 2014, decreasing by 20 percentage points per year until the MID would be completely eliminated in 2018 and thereafter. Taxpayers could claim a nonrefundable credit equal to 3 percent of eligible mortgage interest in 2014, increasing by 3 percentage points per year until hitting 15 percent in 2018 and thereafter.

(6) The cap on eligible debt would be $850,000 in 2014 and decline by $150,000 per year until reaching $250,000 for 2018 and thereafter. Taxpayers would be allowed to deduct 80 percent of eligible mortgage interest in 2014, decreasing by 20 percentage points per year until the MID would be completely eliminated in 2018 and thereafter. Taxpayers could claim a nonrefundable credit equal to 4 percent of eligible mortgage interest in 2014, increasing by 4 percentage points per year until hitting 20 percent in 2018 and thereafter.

(7) The cap on eligible debt would be $900,000 in 2014 and decline by $100,000 per year until reaching $500,000 for 2018 and thereafter. Taxpayers would be allowed to deduct 80 percent of eligible mortgage interest in 2014, decreasing by 20 percentage points per year until the MID would be completely eliminated in 2018 and thereafter. Taxpayers could claim a nonrefundable credit equal to 4 percent of eligible mortgage interest in 2014, increasing by 4 percentage points per year until hitting 20 percent in 2018 and thereafter.

(8) The cap on eligible debt would be $950,000 in 2014 and decline by $50,000 per year until reaching $750,000 for 2018 and thereafter. Taxpayers would be allowed to deduct 80 percent of eligible mortgage interest in 2014, decreasing by 20 percentage points per year until the MID would be completely eliminated in 2018 and thereafter. Taxpayers could claim a nonrefundable credit equal to 4 percent of eligible mortgage interest in 2014, increasing by 4 percentage points per year until hitting 20 percent in 2018 and thereafter.