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Who Receives Homeownership Tax Deductions and How Much?

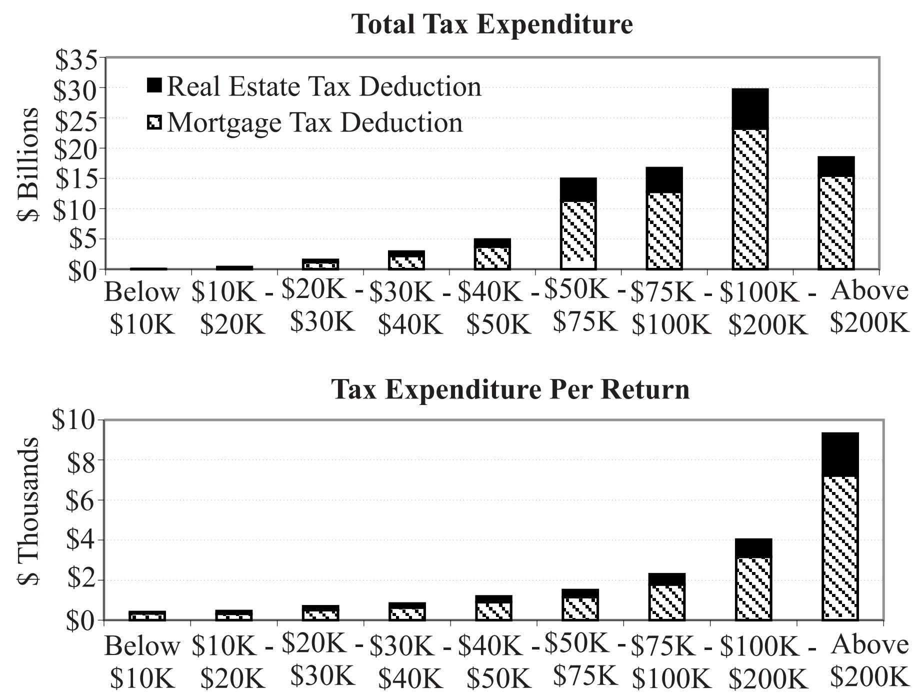
By Adam Carasso

Some of the costliest tax expenditures the federal government allows go to subsidizing homeownership. According to estimates by the Joint Committee on Taxation for fiscal 2004, the total tax expenditure value of the mortgage interest deduction was $70.2 billion while the value for the real estate tax deduction was $19.3 billion.

The charts below show that federal tax subsidies for homeownership disproportionately go to taxpayers in upper-income brackets. The top chart shows the distribution of total tax expenditures for the mortgage interest and real estate tax deductions by income class. Fifty-four percent of those tax expenditures went to taxpayers with incomes exceeding $100,000 and 72 percent went to taxpayers with incomes exceeding $75,000. The bottom chart shows the average tax expenditure per tax return. Taxpayers with incomes between $0 and $75,000 see average subsidies ranging from $400 to $1,500. However, taxpayers with income above $75,000 enjoy much larger average subsides, reflecting higher average home values and rates of homeownership. Very few taxpayers receive those two subsidies at low incomes — as most low-income tax return filers owe little tax, do not itemize, and are less likely than taxpayers in other groups to own a home — and very many taxpayers receive them at higher incomes. When these housing tax expenditures are compared alongside overall tax liability by income class (not shown), however, middle-income households are likely to gain more on net than the well-off.

Not included here are the substantial exclusions of net imputed rental income or capital gains on sales of principal residences, although the distribution of those tax expenditures follows a roughly similar pattern. Some very-low-income households do receive generous housing subsidies from federal spending programs, but those subsidies encourage renting and not owning.

Distribution of Total and Average Tax Expenditures For the Mortgage Interest and Real Estate Tax Deductions By Income Class FY 2004



Source: The Urban Institute, 2005. Based on data from the Joint Committee on Taxation, "Taxation of Federal Tax Expenditures for Fiscal 2005-2009," Jan. 12, 2005, Table 3.

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