

## The Benefits of Mortgage Interest And Property Tax Deductions

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Homeowners benefit from itemized deductions for mortgage interest and property taxes they pay. The Joint Committee on Taxation estimated that the two tax expenditures will save taxpayers a total of \$96.7 billion in fiscal 2013.<sup>1</sup>

Tax expenditures for owner-occupied housing favor high-income households for three reasons. First, high-income people are more likely to own their homes. Second, they are more likely to itemize and therefore to benefit from the deductions: 78 percent of households in the top quintile itemize, compared with 22 percent of middle-income house-

<sup>1</sup>Economists often note that the tax benefit to homeownership is the exclusion of the return on housing investment, not deductions for mortgage interest and property taxes. See Eric J. Toder, "Options to Reform the Home Mortgage Interest Deduction," Testimony Before the Committee on Ways and Means, Hearing on Tax Reform and Residential Real Estate, Apr. 25, 2013.

holds and just 1 percent of those in the bottom quintile. And third, each dollar deducted reduces taxes more for households in higher tax brackets.

The benefits of tax expenditures for homeownership also vary by age and family structure. Older homeowners, especially those with relatively low income, benefit less from the deductions because they carry less mortgage debt and often receive preferential property tax relief. Families with children have higher rates of homeownership, all else equal, and thus benefit more from the deductions.

The two deductions increase after-tax income most for high-income families, particularly those with children, while low-income households hardly benefit at all (see table). On average, homeowners in the highest quintile see a 1.4 percent rise in after-tax income, compared with just a 0.3 percent increase for those in the middle quintile and virtually no gain for those in the bottom two quintiles. Within each income quintile, families with children experience the largest income boost, while elderly households benefit the least. In sum, income and demographic characteristics combine to determine the benefits of deductions for homeownership costs.

Average Percent Change in After-Tax Income From Allowing the Deduction of Mortgage Interest and Property Taxes Paid, 2015<sup>a</sup>

Expanded Cash Income Percentile	Single Tax Units	Married Tax Units Filing Jointly	Head of Household Tax Units	Tax Units With Dependent Children	Tax Units With Head or Spouse Age 65 or Older	All Tax Units
Lowest quintile	0.0	0.0	0.0	0.0	0.0	0.0
Second quintile	0.1	0.1	0.1	0.1	0.0	0.1
Middle quintile	0.2	0.4	0.4	0.5	0.1	0.3
Fourth quintile	0.8	0.8	1.1	1.1	0.4	0.8
Top quintile	1.4	1.3	1.8	1.7	0.8	1.4
All	0.7	1.0	0.6	1.1	0.5	0.9

*Source:* Urban-Brookings Tax Policy Center Microsimulation Model (version 0613-1).

<sup>a</sup>For details on the definition of after-tax income, treatment of tax units with negative income, and classification of tax units into various income quintiles, see Table T13-0207, available at <http://taxpolicycenter.org/numbers/index.cfm>.



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