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OPTIONS TO REFORM THE DEDUCTION FOR HOME MORTGAGE INTEREST

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ABSTRACT

Taxpayers can currently deduct interest on up to $1 million in acquisition debt used to buy, build, or improve their primary residence or a second designated residence. They can also deduct interest on up to $100,000 in home equity loans or other loans secured by their properties, regardless of the purpose of loans. This brief considers three proposals for restructuring the mortgage interest deduction: replacing the deduction with a 15 percent non-refundable interest credit, reducing the ceiling on debt eligible for an interest subsidy to $500,000, and combining the substitution of the credit for the deduction with the reduced limit on the interest subsidy.

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OPTIONS TO REFORM THE DEDUCTION FOR HOME MORTGAGE INTEREST

This analysis estimates the revenue and distributional implications of three options to reform the federal individual income tax treatment of home mortgage interest. Currently, taxpayers can claim an itemized deduction for interest on up to $1 million in acquisition debt used to buy, build, or improve their primary residence or a second designated residence. In addition, taxpayers can deduct interest on up to $100,000 in home equity loans secured by their properties regardless of the purpose of loans. The amounts of $1 million and $100,000 are not indexed for inflation.[1]

We consider three options to reform the deduction for home mortgage interest:

- Option 1: Replace the deduction with a 15 percent non-refundable credit that can be claimed by both itemizers and non-itemizers, and reduce the cap on the mortgage eligible for the tax preference from $1 million to $500,000, while allowing for second mortgages and home equity loans under the cap.
- Option 2: Reduce the maximum amount of debt eligible for the mortgage interest deduction to $500,000, while allowing for second mortgages and home equity loans under the cap.
- Option 3: Convert the current mortgage interest deduction to a 15 percent non-refundable tax credit while maintaining the $1 million cap on the eligible debt.

Each option would be phased in over 5 years, for tax years beginning on January 1, 2016. For options that convert the deduction to a credit, they would: (1) allow taxpayers to claim only 80 percent of eligible mortgage interest in 2016, decreasing by 20 percentage points each year until the mortgage interest deduction is completely eliminated in 2020; and (2) allow taxpayers to claim a nonrefundable credit equal to 3 percent of eligible mortgage interest in 2016, increasing by 3 percentage points per year until it reaches 15 percent in 2020 and thereafter. For options that reduce the cap, rather than imposing an immediate limit, they would gradually reduce the current law maximum of $1,000,000 to $900,000 in 2016 and by an additional $100,000 for each subsequent year until the permanent limit of $500,000 is reached in 2020.

We estimate the revenue and distributional effects of the proposals against the current law baseline. Under current law, the value of the itemized deduction for mortgage interest

[1] In 2010, an IRS ruling allowed taxpayers with acquisition debt over $1 million to re-characterize the debt in excess of $1 million as a home equity loan. This effectively raised the ceiling on acquisition debt that is deductible to $1.1 million, which remains the allowable maximum on the sum of acquisition debt and home equity loans that are deductible. The proposals under examination that lower the cap would reduce the combined acquisition and home equity debt eligible for deduction to $500,000.

depends on a taxpayer’s marginal tax rate. For example, a taxpayer in the top tax bracket of 39.6 percent would save $39.60 from an additional $100 of mortgage interest whereas someone in the 15 percent bracket would save only $15. In addition, many lower-income taxpayers do not benefit from the mortgage interest deduction because it gives them a smaller benefit than does simply claiming the standard deduction.

For each of the three proposals, we present revenue effects for fiscal years 2016 through 2025 and distributional effects for calendar year 2016 on a fully phased-in basis. The revenue estimates assume that taxpayers optimally pay down their mortgage in response to a smaller tax preference for mortgage interest. In addition, our revenue estimates are micro-dynamic in that they assume that reported taxable income responds to changes in a taxpayer's statutory marginal tax rate. We do not, however, incorporate in our estimates any possible impacts of the policy changes on homeownership rates, new investment in housing, home values, or mortgage interest rates. The distributional estimates assume no behavioral responses, other than tax form optimization (e.g., choosing the itemization status that minimizes tax liability).

REVENUE EFFECTS

Table 1 presents the 10-year revenue effects. Phasing out the deduction, phasing in the 15 percent credit, and imposing a $500,000 cap on the amount of debt eligible for the mortgage interest deduction will raise approximately $212.9 billion between fiscal years 2016 and 2025. Simply imposing a $500,000 cap to the amount of eligible debt for mortgage interest deduction will raise approximately $94.9 billion over the same time period. Phasing out the deduction and phasing in the 15 percent creditwhile maintaining the current cap will raise approximately $156.1 billion.

DISTRIBUTIONAL EFFECTS

Option 1 vs. Current Law

Converting the current mortgage interest deduction to a 15 percent non-refundable tax credit on the first $500,000 of debt will raise taxes by an average of $120 per tax unit (Table 2). Taxes will decline for 15 percent of tax units by an average of $413, but at the same time will increase for 12 percent of tax units by an average of $1,515. Most affected taxpayers with cash incomes of less than $150,000 will experience a tax cut, while most affected taxpayers with incomes over $150,000 will see their taxes rise. Tax units with incomes between $30,000 and $125,000 receive the largest benefit as a share of their after-tax income, 0.1 percent, while tax units with incomes between $500,000 and $1 million are most adversely affected, with a decline in after-tax income of 0.7 percent.

Option 2 vs. Current Law

Reducing the maximum amount of debt eligible for the mortgage interest deduction to $500,000 will raise taxes by an average of $33 per tax unit (Table 3). No taxpayer will experience a tax cut and hardly any with incomes below $50,000 will experience a tax increase. The 1 percent of tax units who are affected by the proposal, however, will see their taxes rise by an average of $3,255. Tax units with incomes between $500,000 and $1 million see the largest decline in after-tax income, 0.2 percent, but even in this group only about a fifth of tax units will experience a tax increase.

Option 3 vs. Current Law

Replacing the current mortgage interest deduction with a 15 percent non-refundable tax credit while maintaining the $1 million cap on eligible debt will raise taxes by an average of $103 per tax unit (Table 4). Taxes will decline for 15 percent of tax units by an average of $414 and increase for 12 percent of tax units by an average of $1,385. Since the only difference between this option and Option 1 is the cap on eligible debt, the patterns of distributional effects between these two options are similar. With this option, most affected taxpayers with cash incomes of less than $150,000 will experience a tax cut, while most affected taxpayers with incomes over $150,000 will see their taxes rise. Tax units with incomes between $30,000 and $125,000 receive the largest benefit as a share of their after-tax income, 0.1 percent, while tax units with incomes between $200,000 and $1 million are most adversely affected, with a decline in after-tax income of 0.6 percent.

Option 1 vs. Option 3

The above analysis uses current law as the baseline for comparison. In addition, we also compare Options 1 and 3, using Option 3 as the baseline. By doing this, we are able to estimate the distributional effects of introducing a $500,000 cap, assuming the mortgage interest deduction has already been replaced by a 15 percent non-refundable tax credit. Reducing the maximum amount of debt eligible for the 15 percent credit from $1 million to $500,000 will raise taxes by an average of $17 per tax return (Table 5). Taxes will increase for 1 percent of tax units by an average of $1,669. The $500,000 cap on the size of the mortgage eligible for tax credit will affect taxpayers with expanded cash incomes of more than $50,000. More than 20 percent of tax units with incomes more than $500,000 are adversely affected by the cap. Tax units with incomes between $200,000 and $1 million see the largest percentage reduction in after-tax income, 0.1 percent. As is expected, reducing the cap of the amount of mortgage debt eligible for a subsidy to $500,000 has a smaller effect if the subsidy is a 15 percent non-refundable mortgage interest credit (i.e., Option 1 vs. Option 3) than if the subsidy is the current mortgage interest deduction (i.e., Option 2 vs. Current Law) because the mortgage subsidy rate for most of those affected by the new limit is smaller.

NUMBER OF BENEFICIARIES

Mortgage Interest Deduction with $1 million Cap (Current Law)

Under current law, in 2016, about 33.7 million tax units, or 20 percent of all units, will benefit from the itemized deduction for mortgage interest (Table 6). Among tax units with cash incomes less than $50,000, just 2.4 million, or 2.6 percent, benefit from the deduction. Most tax units with incomes below $50,000 do not claim a mortgage interest deduction either because they have no mortgage or because, the sum of their interest expense and other deductible expenses is less than the standard deduction. About 25 percent of those with incomes between $50,000 and $125,000 benefit from the current mortgage interest deduction. Two-thirds of those with income greater than $125,000 benefit from the deduction. Among these high-income taxpayers, those at the very top of the income scale benefit slightly less than those with slightly lower incomes; the percentage of tax units who benefit decreases from about 75 percent for taxpayers with incomes between $200,000 and $1 million to about 60 percent for taxpayers with incomes above $1 million because a smaller share of taxpayers at the very highest incomes have mortgages. Overall, under current law in 2016, the average benefit for taxpayers who claim the deduction will be $2,056. The average size of the benefit increases with income. For example, the average benefit for taxpayers in the $40,000 to $50,000 income group is $528, while the average benefit for taxpayers with cash incomes of more than $1 million is $8,835. This increase in the average benefit results from two factors: (1) higher-income taxpayers with mortgage debt have on average larger mortgages, and (2) the value of the deduction for any given amount of mortgage interest increases with the taxpayer's marginal income tax rate.

Mortgage Interest Deduction with $500,000 Cap (Option 2)

Under the proposal to reduce the maximum amount of debt eligible for the mortgage interest deduction to $500,000, the number of beneficiaries would not change because those who benefit from the deduction under the $1 million cap would still benefit under the $500,000 cap, although by a lesser amount. The cap would have different effects on the average benefit in different income groups. The average benefit among all taxpayers who claim the deduction in 2016 will be $1,892, compared with an average benefit of $2,056 with the current law $1 million cap. The cap reduces the average benefit for taxpayers with incomes between $40,000 and $50,000 only by $4, from $528 to $524. In contrast, for taxpayers with cash incomes of more than $1 million, the cap reduces the average benefit from $8,835 to $6,245. While the average benefit still increases with income, the increase is smaller with the lower cap because higher-income taxpayers are more likely to have mortgages larger than the cap.

15 Percent Credit with $1 Million Cap (Option 3)

Under the proposal to convert the current deduction to a 15 percent non-refundable credit, the number of tax units who benefit would rise by 14.6 million, to a total of 48.4 million—approximately 28 percent of all tax units. The number of tax units with incomes less than $50,000 who benefit would more than double from 2.4 million to 5.1 million, or 5.5 percent of tax units. The share of units benefiting would rise from 25 to 45 percent of those with incomes between $50,000 and $125,000, but only from 65 to 73 percent of those with incomes greater than $125,000. Compared with the deduction, a tax credit would benefit many additional taxpayers in lower income groups, as taxpayers at lower income levels are less likely to have sufficiently large itemized deductions to exceed the value of the standard deduction. As a result, they do not currently benefit from the mortgage interest deduction, but would benefit from the tax credit, because with the credit they could continue to claim the standard deduction.

Although more taxpayers would benefit from the credit than the deduction, the average value of the benefit from the credit would be substantially lower than the average benefit from the deduction. Overall, under the proposal of a 15 percent tax credit, in 2016, the average benefit for taxpayers who claim it will be $1,096, significantly lower than the average benefit of $2,056 under the current law mortgage interest deduction. The average benefit would decline for all cash income groups, except those for taxpayers with cash incomes less than $30,000. The average benefit would decline most for beneficiaries in the highest income groups. For example, the average benefit for beneficiaries with incomes between $20,000 and $30,000 increases from $370 to $378; the average benefit for beneficiaries with incomes between $40,000 and $50,000 declines from $528 to $496; and, at the other extreme, the average benefit for beneficiaries with cash incomes of more than $1 million declines from $8,835 to $3,601. The changes in average benefits reflect differences in marginal tax rates faced by taxpayers at different levels, because higher marginal rates raise the value of the current law deduction but would not affect the value of tax credits.

15 Percent Credit with $500,000 Cap (Option 1)

Under the proposal to replace the current deduction with a 15 percent non-refundable credit on interest for a mortgage of no more than $500,000, the number of taxpayers who benefit would increase to 48.4 million. This is because the cap would not affect eligibility for the credit. In 2016, the average benefit for taxpayers who claim the credit will be $1,038, which is approximately $1,000 lower than the average benefit under current law and $58 lower than the average benefit under the credit with the $1 million cap. The average benefit among those who claim a subsidy would decline the most at the highest income levels. For example, with the $500,000 cap, the average benefit for beneficiaries with incomes between $40,000 and $50,000 is $495, compared with an average for beneficiaries of $528 under current law, and $496 under the tax credit with the $1 million cap. For beneficiaries with cash incomes of more than $1 million, the average benefit is $2,575, compared with $8,835 under current law and $3,601 under the tax credit with the $1 million cap. As mentioned above, both the conversion from deduction to a credit and the mortgage cap contribute to the lower benefit per recipient, with the largest decline in the average benefit experienced by the very highest-income beneficiaries.

Table 1
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 Nonrefundable 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 Nonrefundable 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.

Table 2
Option 1: Replace the Mortgage Interest Deduction with a 15 Percent Nonrefundable Credit on the First $500,000 of Debt
Baseline: Current Law
Distribution of Federal Tax Change by Expanded Cash Income Level, 2016 [1]
Summary Table

Expanded Cash Income Level (thousands of 2015 dollars) [2]	Tax Units with Tax Increase or Cut [3]				Percent Change in After-Tax Income [4]	Share of Total Federal Tax Change	Average Federal Tax Change ($)	Average Federal Tax Rate[5]	
	With Tax Cut		With Tax Increase						
	Pct of Tax Units	Avg Tax Cut	Pct of Tax Units	Avg Tax Increase				Change (% Points)	Under the Proposal
Less than 10	*	**	0.0	0	0.0	0.0	0	0.0	7.6
10-20	1.1	-189	0.0	0	0.0	-0.3	-2	0.0	3.5
20-30	3.0	-257	0.2	312	0.0	-0.8	-7	0.0	5.5
30-40	9.1	-272	0.7	330	0.1	-1.7	-22	-0.1	8.8
40-50	16.2	-303	1.2	399	0.1	-2.8	-44	-0.1	11.4
50-75	24.7	-326	5.4	433	0.1	-6.6	-57	-0.1	13.7
75-100	34.9	-432	13.1	658	0.1	-5.0	-65	-0.1	16.3
100-200	31.3	-512	30.7	893	-0.1	14.9	113	0.1	19.2
200-500	7.9	-554	69.2	2,049	-0.6	68.8	1,375	0.5	23.9
500-1,000	3.4	-725	74.1	4,403	-0.7	20.6	3,236	0.5	29.0
More than 1,000	5.9	-1,363	57.8	6,631	-0.2	12.8	3,752	0.1	34.9
All	14.7	-413	11.9	1,515	-0.2	100.0	120	0.1	20.5
Addendum									
100-125	38.4	-517	16.1	771	0.1	-3.9	-74	-0.1	17.6
125-150	32.6	-512	29.4	780	-0.1	2.2	62	0.0	18.8
150-175	24.3	-490	44.5	924	-0.2	7.4	292	0.2	20.1
175-200	18.4	-524	55.6	1,077	-0.3	9.2	502	0.3	21.3

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

Number of AMT Taxpayers (millions). Baseline: 4.3 Proposal: 4.9

* Less than 0.05

** Insufficient data

(1) Calendar year. Baseline is current law. Proposal 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. Estimates are static and do not assume that taxpayers would adjust their investment portfolio and pay down their mortgage balance if their tax benefit from mortgage interest was reduced. For a description of TPC's current law baseline, see http://www.taxpolicycenter.org/taxtopics/Baseline-Definitions.cfm

(2) Includes both filing and non-filing units but excludes those that are dependents of other tax units. Tax units with negative adjusted gross income are excluded from their respective income class but are included in the totals. For a description of expanded cash income, see http://www.taxpolicycenter.org/TaxModel/income.cfm

(3) Includes tax units with a change in federal tax burden of $10 or more in absolute value.

(4) After-tax income is expanded cash income less: individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); estate taxes; and excise taxes.

(5) Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, the estate tax, and excise taxes) as a percentage of average expanded cash income.

Table 3

Option 2: Reduce the Maximum Amount of Debt Eligible for the Mortgage Interest Deduction to $500,000

Baseline: Current Law

Distribution of Federal Tax Change by Expanded Cash Income Level, 2016 [1]

Summary Table

Expanded Cash Income Level (thousands of 2015 dollars) [2]	Tax Units with Tax Increase or Cut [3]				Percent Change in After-Tax Income [4]	Share of Total Federal Tax Change	Average Federal Tax Change ($)	Average Federal Tax Rate[5]	
	With Tax Cut		With Tax Increase						
	Pct of Tax Units	Avg Tax Cut	Pct of Tax Units	Avg Tax Increase				Change (% Points)	Under the Proposal
Less than 10	0.0	0	0.0	0	0.0	0.0	0	0.0	7.6
10-20	0.0	0	0.0	0	0.0	0.0	0	0.0	3.5
20-30	0.0	0	0.0	0	0.0	0.0	0	0.0	5.5
30-40	0.0	0	0.0	0	0.0	0.0	0	0.0	8.9
40-50	0.0	0	*	**	0.0	0.1	0	0.0	11.5
50-75	0.0	0	0.1	495	0.0	0.3	1	0.0	13.8
75-100	0.0	0	0.6	1,394	0.0	2.1	8	0.0	16.4
100-200	0.0	0	1.7	1,496	0.0	12.0	25	0.0	19.1
200-500	0.0	0	7.0	3,330	-0.1	42.4	234	0.1	23.5
500-1,000	0.0	0	20.5	4,964	-0.2	23.5	1,018	0.2	28.7
More than 1,000	0.0	0	25.6	6,196	-0.1	19.6	1,589	0.1	34.8
All	0.0	0	1.0	3,255	-0.1	100.0	33	0.0	20.4
Addendum									
100-125	0.0	0	1.0	1,169	0.0	2.2	11	0.0	17.7
125-150	0.0	0	1.5	1,313	0.0	2.6	20	0.0	18.8
150-175	0.0	0	2.2	1,542	0.0	3.1	34	0.0	20.0
175-200	0.0	0	3.3	1,904	0.0	4.1	62	0.0	21.0

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

Number of AMT Taxpayers (millions). Baseline: 4.3 Proposal: 4.3

* Less than 0.05

** Insufficient data

(1) Calendar year. Baseline is current law. Proposal 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. Estimates are static and do not assume that taxpayers would adjust their investment portfolio and pay down their mortgage balance if their tax benefit from mortgage interest was reduced. For a description of TPC's current law baseline, see http://www.taxpolicycenter.org/taxtopics/Baseline-Definitions.cfm

(2) Includes both filing and non-filing units but excludes those that are dependents of other tax units. Tax units with negative adjusted gross income are excluded from their respective income class but are included in the totals. For a description of expanded cash income, see http://www.taxpolicycenter.org/TaxModel/income.cfm

(3) Includes tax units with a change in federal tax burden of $10 or more in absolute value.

(4) After-tax income is expanded cash income less: individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); estate taxes; and excise taxes.

(5) Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, the estate tax, and excise taxes) as a percentage of average expanded cash income.

Table 4

Option 3: Replace the Mortgage Interest Deduction with a 15 Percent Nonrefundable Credit

Baseline: Current Law

Distribution of Federal Tax Change by Expanded Cash Income Level, 2016 [1]

Summary Table

Expanded Cash Income Level (thousands of 2015 dollars) [2]	Tax Units with Tax Increase or Cut [3]				Percent Change in After-Tax Income [4]	Share of Total Federal Tax Change	Average Federal Tax Change ($)	Average Federal Tax Rate [5]	
	With Tax Cut		With Tax Increase						
	Pct of Tax Units	Avg Tax Cut	Pct of Tax Units	Avg Tax Increase				Change (% Points)	Under the Proposal
Less than 10	*	**	0.0	0	0.0	0.0	0	0.0	7.6
10-20	1.1	-189	0.0	0	0.0	-0.3	-2	0.0	3.5
20-30	3.0	-257	0.2	312	0.0	-0.9	-7	0.0	5.5
30-40	9.1	-272	0.7	330	0.1	-2.0	-22	-0.1	8.8
40-50	16.2	-303	1.2	388	0.1	-3.3	-44	-0.1	11.4
50-75	24.7	-326	5.4	432	0.1	-7.6	-57	-0.1	13.7
75-100	35.0	-432	13.0	619	0.1	-6.3	-71	-0.1	16.3
100-200	31.5	-512	30.3	841	-0.1	14.4	94	0.1	19.2
200-500	7.9	-554	69.2	1,884	-0.6	73.1	1,260	0.4	23.9
500-1,000	3.4	-729	74.0	3,805	-0.6	20.6	2,792	0.4	29.0
More than 1,000	6.2	-1,624	57.5	5,568	-0.2	12.3	3,103	0.1	34.9
All	14.8	-414	11.9	1,385	-0.2	100.0	103	0.1	20.5
Addendum									
100-125	38.6	-516	15.7	736	0.1	-5.1	-84	-0.1	17.6
125-150	32.7	-512	29.1	732	0.0	1.9	46	0.0	18.8
150-175	24.3	-489	44.4	869	-0.2	7.8	266	0.2	20.1
175-200	18.5	-522	55.2	1,009	-0.3	9.8	460	0.2	21.3

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

Number of AMT Taxpayers (millions). Baseline: 4.3 Proposal: 4.9

* Less than 0.05

** Insufficient data

(1) Calendar year. Baseline is current law. Proposal 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). Estimates are static and do not assume that taxpayers would adjust their investment portfolio and pay down their mortgage balance if their tax benefit from mortgage interest was reduced. For a description of TPC's current law baseline, see http://www.taxpolicycenter.org/taxtopics/Baseline-Definitions.cfm

(2) Includes both filing and non-filing units but excludes those that are dependents of other tax units. Tax units with negative adjusted gross income are excluded from their respective income class but are included in the totals. For a description of expanded cash income, see http://www.taxpolicycenter.org/TaxModel/income.cfm

(3) Includes tax units with a change in federal tax burden of $10 or more in absolute value.

(4) After-tax income is expanded cash income less: individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); estate taxes; and excise taxes.

(5) Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, the estate tax, and excise taxes) as a percentage of average expanded cash income.

Table 5

Reduce the the Maximum Amount of Debt Eligible for the 15 Percent Nonrefundable Credit from $1,000,000 to $500,000

Baseline: 15 percent nonrefundable credit on the first $1,000,000 of debt

Distribution of Federal Tax Change by Expanded Cash Income Level, 2016 [1]

Summary Table

Expanded Cash Income Level (thousands of 2015 dollars) [2]	Tax Units with Tax Increase or Cut [3]				Percent Change in After-Tax Income [4]	Share of Total Federal Tax Change	Average Federal Tax Change ($)	Average Federal Tax Rate[5]	
	With Tax Cut		With Tax Increase						
	Pct of Tax Units	Avg Tax Cut	Pct of Tax Units	Avg Tax Increase				Change (% Points)	Under the Proposal
Less than 10	0.0	0	0.0	0	0.0	0.0	0	0.0	7.6
10-20	0.0	0	0.0	0	0.0	0.0	0	0.0	3.5
20-30	0.0	0	0.0	0	0.0	0.0	0	0.0	5.5
30-40	0.0	0	0.0	0	0.0	0.0	0	0.0	8.8
40-50	0.0	0	*	**	0.0	0.1	0	0.0	11.4
50-75	0.0	0	0.1	321	0.0	0.2	0	0.0	13.7
75-100	0.0	0	0.5	1,388	0.0	3.5	6	0.0	16.3
100-200	0.0	0	1.7	1,154	0.0	18.2	19	0.0	19.2
200-500	0.0	0	7.0	1,641	-0.1	41.7	115	0.0	23.9
500-1,000	0.0	0	20.4	2,179	-0.1	20.4	443	0.1	29.0
More than 1,000	0.0	0	25.6	2,538	0.0	16.0	650	0.0	34.9
All	0.0	0	1.0	1,669	0.0	100.0	17	0.0	20.5
Addendum									
100-125	0.0	0	0.9	1,038	0.0	3.6	9	0.0	17.6
125-150	0.0	0	1.5	1,118	0.0	4.4	17	0.0	18.8
150-175	0.0	0	2.2	1,157	0.0	4.7	26	0.0	20.1
175-200	0.0	0	3.3	1,274	0.0	5.5	42	0.0	21.3

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

Number of AMT Taxpayers (millions). Baseline: 4.9 Proposal: 4.9

* Less than 0.05

** Insufficient data

(1) Calendar year. Baseline is a 15 percent nonrefundable credit on the first $1,000,000 of debt. Proposal would reduce the maximum amount of debt eligible for the 15 percent non-refundable credit to $500,000 of debt on a primary residence, second home, and/or a home equity loan. Estimates are static and do not assume that taxpayers would adjust their inves tment portfolio and pay down their mortgage balance if their tax benefit from mortgage interest was reduced. For a description of TPC's current law baseline, see
http://www.taxpolicycenter.org/taxtopics/Baseline-Definitions.cfm

(2) Includes both filing and non-filing units but excludes those that are dependents of other tax units. Tax units with negative adjusted gross income are excluded from their respective income class but are included in the totals. For a description of expanded cash income, see
http://www.taxpolicycenter.org/TaxModel/income.cfm

(3) Includes tax units with a change in federal tax burden of $10 or more in absolute value.

(4) After-tax income is expanded cash income less: individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); estate taxes; and excise taxes.

(5) Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, the estate tax, and excise taxes) as a percentage of average expanded cash income

Table 6

Benefits from Mortgage Interest Deduction and 15 Percent Nonrefundable Credit, 2016 [1]

Expanded Cash Income Level (thousands of 2015 dollars) [2]	Tax Units (thousands)	Tax Units with Mortgage Interest		Current Mortgage Interest Deduction						15 Percent Nonrefundable Credit					
				Tax Units with Benefit [3]		Average Benefit (dollars)				Tax Units with Benefit [3]		Average Benefit (dollars)			
						Current Law Limits		$500,000 Limit				Current Law Limits		$500,000 Limit	
		Number (thousands)	Percent Within Class	Number (thousands)	Percent Within Class	All Tax Units	Tax Units With Benefit	All Tax Units	Tax Units With Benefit	Number (thousands)	Percent Within Class	All Tax Units	Tax Units With Benefit	All Tax Units	Tax Units With Benefit
Less than 10	14,724	678	4.6	*	**	**	**	**	**	3	0.0	**	94	**	94
10-20	26,039	1,588	6.1	147	0.6	1	178	1	178	336	1.3	3	226	3	226
20-30	21,906	2,363	10.8	335	1.5	6	370	6	370	741	3.4	13	378	13	378
30-40	16,072	3,374	21.0	767	4.8	20	417	20	417	1,625	10.1	42	412	42	412
40-50	13,205	3,713	28.1	1,170	8.9	47	528	46	524	2,393	18.1	90	496	90	495
50-75	23,789	9,330	39.2	3,915	16.5	137	831	136	827	7,558	31.8	195	612	194	612
75-100	15,880	8,708	54.8	4,527	28.5	330	1,159	323	1,134	8,086	50.9	400	786	394	775
100-125	10,817	6,822	63.1	4,155	38.4	501	1,305	491	1,277	6,822	63.1	587	955	579	941
125-150	7,442	5,109	68.7	3,812	51.2	774	1,510	756	1,476	5,109	68.7	769	1,136	755	1,115
150-175	5,221	3,714	71.1	3,133	60.0	1,109	1,848	1,077	1,795	3,714	71.1	892	1,272	867	1,235
175-200	3,785	2,842	75.1	2,591	68.5	1,492	2,179	1,436	2,097	2,842	75.1	1,075	1,441	1,034	1,386
200-500	10,362	8,090	78.1	7,718	74.5	2,584	3,470	2,359	3,168	7,990	77.1	1,402	1,819	1,288	1,670
500-1,000	1,317	1,033	78.4	995	75.6	4,933	6,525	3,924	5,191	1,016	77.1	2,184	2,831	1,741	2,257
More than 1,000	705	456	64.7	429	60.8	5,374	8,835	3,790	6,245	446	63.2	2,276	3,601	1,628	2,575
All	172,532	57,872	33.5	33,694	19.5	401	2,056	369	1,892	48,368	28.0	307	1,096	291	1,038
Addendum															
Less than 50	91,946	11,716	12.7	2,419	2.6	12	450	12	448	5,098	5.5	24	437	24	436
50 - 125	50,486	24,860	49.2	12,597	25.0	276	1,105	271	1,086	22,466	44.5	343	788	339	779
More than 125	28,832	21,244	73.7	18,678	64.8	1,882	2,905	1,698	2,622	21,117	73.2	1,160	1,630	1,070	1,496

(1) Calendar year.
(2) Includes both filing and non-filing units but excludes those that are dependents of other tax units. Tax units with negative cash income are excluded from the lowest income class but are included in the totals. For a description of cash income, see http://www.taxpolicycenter.org/TaxModel/income.cfm
(3) Includes tax units with a change in federal tax burden of $10 or more in absolute value. Estimates are static and do not assume that taxpayers would adjust their investment portfolio and pay down their mortgage balance if their tax benefit from mortgage interest was reduced.

The Tax Policy Center is a joint venture of the
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