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. Taxpayers can also deduct interest on up to $100,000 in home equity loans or other loans secured by their properties, regardless of the loans' purpose. This brief considers two proposals for restructuring the mortgage interest deduction. Both proposals repeal the current mortgage interest deduction and define eligible mortgage interest as interest incurred on up to $500,000 of an eligible mortgage. The first proposal allows a nonrefundable tax credit of 15 percent of eligible mortgage interest; the second allows a tax credit of 20 percent. We also estimate options that phase out the current mortgage interest deduction and phase in the new 15 or 20 percent credit over five years.

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This analysis estimates the revenue and distributional implications of reforming 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 the interest on up to $100,000 in home equity loans or other loans secured by their properties regardless of the purpose of the loans.[1] The amounts of $1 million and $100,000 are not indexed for inflation.

We consider here two proposals, both of which would: (a) replace the itemized deduction with a nonrefundable tax credit equal to a fixed percentage of eligible home mortgage interest, and (b) limit the amount of mortgage interest to which the credit applies to the first $500,000 of debt, not indexed for inflation. The first proposal would provide a credit of 15 percent of eligible mortgage interest; the second would provide a credit of 20 percent.[2]

Under current law, the value of the itemized deduction for mortgage interest depends on a taxpayer's marginal tax rate. For example, a taxpayer in the top tax bracket of 39.6 percent under the American Taxpayer Relief Act of 2012 (ATRA) would save $39.60 from an additional $100 of mortgage interest whereas someone in the 15 percent bracket would save $15, only 38 percent as much.[3] In addition, many lower-income taxpayers do not benefit from the mortgage interest deduction because it is more beneficial for them to claim the standard deduction instead. In contrast, the proposed 15 or 20 percent nonrefundable credit for mortgage interest would provide the same tax savings as a percentage of interest paid regardless of the taxpayer's marginal tax bracket and would be available to all tax filers with positive income tax liability whether they itemize their deductions or claim the standard deduction.

We also examine a phase-in option for each proposal. Rather than imposing an immediate limit of $500,000 on the amount of debt on which the credit for eligible interest can be claimed, the phase-in options would: (1) gradually reduce the current law maximum of $1,000,000 to $900,000 in 2014 and by an additional $100,000 for each subsequent year until the permanent limit of $500,000 is reached in 2018; (2) allow taxpayers to claim only 80 percent of eligible mortgage interest in 2014, decreasing by 20 percentage points each year until the mortgage interest deduction is completely eliminated in 2018; and (3) for the 15 percent credit allow taxpayers to claim a nonrefundable credit equal to three percent of eligible mortgage interest in 2014 increasing by three percentage points per year until hitting 15 percent in 2018 and thereafter (for the 20 percent credit, the credit rate would start at 4 percent in 2014 and increase by four percentage points each year).

[1] Interest on a home equity loan not used to buy, build, or improve a residence is not deductible for alternative minimum tax purposes. See "Present Law and Background on the Tax Treatment of Household Debt," Joint Committee on Taxation, July 11, 2011, http://www.jct.gov/publications.html?func=startdown&id=3802. Note that the American Taxpayer Relief Act of 2012, discussed below, did not change these provisions of law.

[2] Because the deduction for home mortgage interest is not an alternative minimum tax (AMT) preference item, we assume that the new mortgage interest credit would not be limited by the AMT.

[3] This simplified example ignores the various phase-ins and phase-outs in the tax code that can cause a taxpayer's effective marginal tax rate to differ from his or her statutory rate.

We estimate the revenue and distributional effects of the proposals against the current law baseline following the enactment of the ATRA on January 1, 2013. Current law is the baseline that is used by revenue estimators at the Joint Committee on Taxation to officially score tax proposals. The key changes in tax law between 2012 and 2013 affecting the mortgage interest deduction are (1) an increase in marginal tax rate from 35 to 39.6 percent on taxable income of more than $450,000 for married couples ($400,000 for single persons) and (2) reinstatement of a provision originally proposed by Congressman Donald Pease reducing the value of itemized deductions (including the mortgage interest deduction) by 3 percent of the amount that adjusted gross income exceeds $300,000 for married couples ($250,000 for singles).

We present revenue effects for fiscal years 2014 through 2023 and distributional effects for calendar year 2015 on a fully phased-in basis, for both the 15 percent and 20 percent credit. The revenue and distributional estimates assume that taxpayers optimally pay down their mortgage in response to a smaller tax preference for mortgage interest.[4] 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.

Revenue Effects

Compared with current law, immediate replacement of the mortgage interest deduction with a 15 percent non-refundable credit for eligible mortgage interest will raise approximately $213 billion between fiscal years 2014 and 2023 (table 1, option 1). In contrast, replacing the deduction with a 20 percent credit would lose approximately $25 billion between fiscal years 2014 and 2023 (table 1, option 3).

The 10-year revenue effects are smaller when the mortgage interest deduction is phased out and the new credit is phased in over five years. Phasing out the deduction and phasing in the 15 percent credit reduces the 10-year revenue gain to approximately $197 billion. Phasing in the 20 percent credit reduces the 10-year revenue loss to approximately $4 billion. Overall, phasing in the new credits reduces the revenue effects for the 10-year period, whether the effects are positive or negative.

Distributional Effects

Replacing the current mortgage interest deduction with a credit of 15 percent for eligible mortgage interest raises taxes by an average of $105 per tax return. (table 2). Taxes decline for 20 percent of tax units by an average of $452, but increase for 13 percent of tax units by an average of $1,458.   Most affected taxpayers with cash income of less than $100,000 will experience a tax cut, while most affected taxpayers with income over $100,000 will see their

[4] This adjustment is needed because taxpayers would not want to incur non-deductible debt to generate taxable investment income. The tax model therefore assumes that taxpayers with positive taxable investment income will liquidate some of their holdings of other assets to pay off their mortgages if elimination of the interest deduction makes the after-tax cost of carrying a mortgage sufficiently higher than the after-tax returns on their investment assets.

taxes rise. Tax units with incomes between $30,000 and $75,000 receive the largest benefit as a share of their after-tax income, 0.2 percent, while tax units with incomes between $200,000 and $500,000 are most adversely affected, with a decline in after-tax income of 0.9 percent.

With a 20 percent credit rate, in contrast, taxes fall by an average of $23 per return (table 3). The pattern of distributional changes, however, is similar to the changes with a 15 percent credit. Taxes decline for 24 percent of tax units by an average of $632 and increase for 11 percent of tax units by an average of $1,152. Lower income taxpayers continue to receive a net tax benefit and higher income taxpayers, a net tax increase, but the point in the income distribution at which the average federal tax change shifts from a tax cut to a tax increase is $125,000, compared with $100,000 for the 15 percent credit. The percentage increase in after-tax income is largest for tax units with incomes between $75,000 and $100,000 (0.5 percent) and the percentage reduction is largest for those with incomes between $200,000 and $500,000 (0.7 percent). Because the benefit of the current mortgage interest deduction is based on a progressive marginal tax rate structure, the 20 percent credit proposal provides an average tax cut to tax units with incomes somewhat above $100,000, while the 15 percent credit proposal does not.

Number of Beneficiaries

Under current law, in 2015 about 38.6 million tax units, or 24 percent of the total, will benefit from the itemized deduction for mortgage interest (table 4). Among tax units with cash income less than $50,000, just 4.9 million, or 5.6 percent, benefit from the deduction. Most tax units with income below $50,000 do not claim a mortgage interest deduction either because they have no mortgage or because their interest expense, combined with other deductible expenses, is too low to provide a benefit from itemizing compared with the standard deduction. In contrast, about two-thirds of households with incomes between $125,000 and $500,000 benefit from the deduction. At the very top of the income scale, a smaller percentage of taxpayers have mortgages than in upper middle-income groups, and many of those who do deduct mortgage interest receive no net tax saving from the deduction because they receive an equal amount of taxable interest income. Accordingly, only one-third of those with incomes greater than $1 million benefit from the current deduction, compared with about two-thirds of those with incomes between $125,000 and $500,000.

Overall, the average benefit for taxpayers who claim the deduction will be $2,063. The average size of the benefit rises with income for two reasons: higher-income taxpayers on average have larger mortgages, and the value of the deduction for any given amount of mortgage interest rises with the taxpayer's marginal income tax rate. To illustrate, the average benefit under current law in 2015 for a taxpayer in the $40,000 to $50,000 income range is about $830; for someone with cash income of more than $1 million the average benefit is $8,816.

Under the proposal to repeal the current deduction and replace it with a 15 percent nonrefundable credit on interest for a mortgage of no more than $500,000, the number of taxpayers who benefit would rise by about 16 million, to a total of 54.9 million—about one-third of all tax units. A much higher percentage of taxpayers in lower income groups would receive tax benefits from the mortgage interest credit compared with the deduction. Among taxpayers with cash income less than $50,000, the number that benefit would more than double to 13 million, or 14.8 percent of all such tax units. For taxpayers with incomes between $50,000 and $75,000, the number benefiting from the credit would rise to 13.7 million (over 50 percent of such tax units) from about 8 million (30 percent) under the deduction. This would occur because taxpayers at lower income levels are less likely to have sufficient itemized deductions to exceed the value of the standard deduction. As a result, such taxpayers would not benefit from the mortgage interest deduction, whereas the credit would be available even if they were 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 benefit from the deduction. Overall, the average benefit for tax units claiming the 15 percent credit in 2015 would be $1,149, about $900 lower than the benefit from the deduction. The decline would occur among all cash income levels, but the largest drop would be for taxpayers in the top tax brackets. The reason is that the difference in benefits reflects the spread between their marginal tax rate, which determines the value of the current deduction, and the percentage value of the credit. For the highest tax bracket, this spread would amount to 24.6 percent (39.6 percent minus 15 percent).[5] These taxpayers would also be hit hardest by the $500,000 mortgage cap because high-income households are more likely to have mortgages larger than the cap.

Since eligibility for the credit is not affected by its value, the number of taxpayers benefitting from the 20 percent credit is the same as the number under the 15 percent credit. The value of the benefit, of course, would be greater with a higher credit. Thus, for all tax units receiving a benefit, the average benefit with the 20 percent credit would be $1,517, about $370 higher than with the 15 percent credit. This amount is about proportional to the increase in the credit value, with some slight offset because of the nonrefundable feature of the credit (that is, the credit can reduce tax liability to zero but cannot generate a positive payment to the beneficiary). Each income group would also receive a greater benefit with a 20 percent credit than with a 15 percent credit, although for higher income groups the benefit would still be far below that of current law. For example, for tax units with more than $1 million in cash income and claiming the credit, the average benefit from the 20 percent credit is $3,713, about $910 greater than the benefit under the 15 percent credit ($2,782) but over $5,000 lower than the benefit under current law.

[5] This calculation does not take into account other provisions of the tax code that may affect the taxpayer's marginal effective tax rate.

Table 1
Options to Replace Mortgage Interest Deduction (MID) with Nonrefundable 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 $500,000 (unindexed) [2]	7.2	13.8	17.1	20.2	22.5	24.0	25.5	26.6	27.3	28.7	212.8
Option 2: Phase in Option 1 Over a 5-Year Period [3]	2.9	7.8	13.3	18.6	22.2	24.0	25.5	26.6	27.3	28.7	196.7
Option 3: Replace MID with 20 Percent Nonrefundable Credit and Cap Eligible Amount of Debt at $500,000 (unindexed)	-4.3	-6.1	-4.3	-2.6	-1.6	-1.3	-1.0	-1.1	-1.6	-1.4	-25.3
Option 4: Phase in Option 3 Over a 5-Year Period [4]	0.3	0.6	1.1	1.2	-0.4	-1.3	-1.0	-1.1	-1.6	-1.4	-3.6

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 $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.

(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 4 percent of eligible mortgage interest in 2014, increasing by 4 percentage points per year until hitting 20 percent in 2018 and thereafter.

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 Cash Income Level, 2015 [1]
Summary Table

Cash Income Level (thousands of 2012 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	3.3
10-20	3.9	-160	*	**	0.0	-0.8	-6	0.0	1.9
20-30	10.8	-255	0.5	252	0.1	-3.0	-26	-0.1	6.6
30-40	22.9	-308	1.7	451	0.2	-6.7	-63	-0.2	11.4
40-50	31.8	-363	2.9	584	0.2	-8.6	-98	-0.2	14.1
50-75	36.3	-470	12.5	600	0.2	-15.4	-96	-0.2	17.1
75-100	38.7	-619	16.1	950	0.1	-8.0	-87	-0.1	19.5
100-200	19.6	-543	45.8	1,075	-0.4	50.4	386	0.3	22.5
200-500	2.1	-578	67.6	2,912	-0.9	69.0	1,955	0.7	27.0
500-1,000	0.5	-1,557	56.4	5,274	-0.6	15.1	2,964	0.4	32.6
More than 1,000	2.8	-4,777	34.3	7,263	-0.1	8.0	2,355	0.1	38.8
All	19.9	-452	13.3	1,458	-0.2	100.0	105	0.1	22.9
Addendum									
100-125	27.3	-534	32.0	770	-0.1	6.6	100	0.1	21.0
125-150	13.7	-550	57.3	1,128	-0.5	23.1	572	0.4	23.2
150-175	9.1	-595	64.0	1,382	-0.6	13.0	831	0.5	23.8
175-200	7.4	-609	66.7	1,465	-0.6	7.7	932	0.5	24.6

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0412-8).
Number of AMT Taxpayers (millions). Baseline: 4.0 Proposal: 4.6
* 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 nonrefundable credit on the first $500,000 of debt on a primary residence, second home, and/or a home equity loan. Estimates assume that taxpayers would adjust their investment portfolio and pay down their mortgage balance if their tax benefit from mortgage interest were reduced. For a description of TPC's current law baseline, see
http://www.taxpolicycenter.org/taxtopics/Baseline-Definitions.cfm
(2) Includes both filing and nonfiling 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.

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

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

Table 3
Option 3: Replace the Mortgage Interest Deduction with a 20 Percent Nonrefundable Credit on the First $500,000 of Debt
Baseline: Current Law
Distribution of Federal Tax Change by Cash Income Level, 2015 [1]
Summary Table

Cash Income Level (thousands of 2012 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	3.3
10-20	3.9	-192	*	**	0.1	4.6	-7	-0.1	1.9
20-30	11.1	-332	0.5	252	0.2	18.5	-35	-0.1	6.5
30-40	24.2	-415	1.7	451	0.3	45.1	-93	-0.3	11.3
40-50	34.5	-514	2.8	594	0.4	64.2	-161	-0.3	14.0
50-75	43.2	-626	9.2	450	0.4	168.5	-229	-0.4	16.9
75-100	48.4	-878	14.5	607	0.5	143.0	-337	-0.4	19.2
100-200	33.4	-723	36.7	687	0.0	-6.5	11	0.0	22.2
200-500	4.1	-663	67.0	2,273	-0.7	-242.6	1,496	0.5	26.8
500-1,000	1.0	-1,486	57.3	4,598	-0.6	-61.4	2,621	0.4	32.5
More than 1,000	3.4	-5,117	35.1	6,619	-0.1	-33.5	2,151	0.1	38.8
All	24.3	-632	11.4	1,152	0.0	100.0	-23	0.0	22.7
Addendum									
100-125	46.0	-735	20.9	524	0.3	69.5	-229	-0.2	20.7
125-150	24.2	-680	48.5	672	-0.2	-30.0	162	0.1	22.9
150-175	15.2	-726	58.9	831	-0.3	-27.2	379	0.2	23.6
175-200	11.5	-762	63.6	918	-0.3	-18.8	497	0.3	24.4

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0412-8).
Number of AMT Taxpayers (millions). Baseline: 4.0 Proposal: 4.6
* Less than 0.05
** Insufficient data

(1) Calendar year. Baseline is current law. Proposal would replace the deduction for mortgage interest with a 20 percent nonrefundable credit on the first $500,000 of debt on a primary residence, second home, and/or a home equity loan. Estimates assume that taxpayers would adjust their investment portfolio and pay down their mortgage balance if their tax benefit from mortgage interest were reduced. For a description of TPC's current law baseline, see
http://www.taxpolicycenter.org/taxtopics/Baseline-Definitions.cfm
(2) Includes both filing and nonfiling 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.

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

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

Table 4
Benefits from Mortgage Interest Deduction, 15 Percent Nonrefundable Credit, and 20 Percent Nonrefundable Credit, 2015 [1]
Baseline: Current Law

Cash Income Level (thousands of 2012 dollars) [2]	Tax Units (thousands)	Tax Units with Mortgage Interest		Current Mortgage Interest Deduction				Proposal: 15 Percent Nonrefundable Credit [4]				Proposal: 20 Percent Nonrefundable Credit [4]			
				Tax Units with Benefit [3]		Average Benefit (dollars)		Tax Units with Benefit [3]		Average Benefit (dollars)		Tax Units with Benefit [3]		Average Benefit (dollars)	
		Number (thousands)	Percent Within Class	Number (thousands)	Percent Within Class	All Tax Units	Tax Units With Benefit	Number (thousands)	Percent Within Class	All Tax Units	Tax Units With Benefit	Number (thousands)	Percent Within Class	All Tax Units	Tax Units With Benefit
Less than 10	13,758	2,229	17.6	**	*	**	**	1	*	**	168	1	*	**	223
10-20	22,829	5,234	22.9	243	1.1	3	275	1,012	4.4	9	204	1,012	4.4	10	232
20-30	19,028	6,072	31.9	726	3.8	21	545	2,246	11.8	47	399	2,246	11.8	56	476
30-40	17,708	7,523	42.5	1,528	8.6	59	688	4,507	25.5	122	479	4,507	25.5	152	597
40-50	14,571	7,440	51.1	2,442	16.8	139	830	5,250	36.0	237	658	5,250	36.0	299	830
50-75	26,865	15,586	58.0	7,957	29.6	348	1,177	13,743	51.2	444	867	13,743	51.2	576	1,126
75-100	15,478	9,945	64.3	7,286	47.1	692	1,470	9,546	61.7	778	1,262	9,546	61.7	1,027	1,666
100-125	11,086	7,584	68.4	6,480	58.5	1,062	1,818	7,206	65.0	963	1,481	7,206	65.0	1,288	1,982
125-150	6,766	5,007	74.0	4,536	67.0	1,739	2,594	4,719	69.8	1,171	1,678	4,719	69.8	1,575	2,258
150-175	2,616	1,981	75.7	1,816	69.4	2,095	3,019	1,818	69.5	1,272	1,830	1,818	69.5	1,714	2,466
175-200	1,380	1,058	76.7	962	69.7	2,108	3,022	906	65.7	1,186	1,806	906	65.7	1,603	2,440
200-500	5,910	4,437	75.1	3,986	67.4	3,217	4,771	3,492	59.1	1,287	2,179	3,492	59.1	1,737	2,940
500-1,000	854	599	70.1	477	55.9	3,989	7,141	339	39.8	1,057	2,658	339	39.8	1,419	3,569
More than 1,000	567	339	59.8	195	34.5	3,038	8,816	120	21.1	587	2,782	120	21.1	783	3,713
All	160,282	75,558	47.1	38,634	24.1	497	2,063	54,904	34.3	394	1,149	54,904	34.3	520	1,517

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0412-8).
* Less than 0.05
** Insufficient data
(1) Calendar year.
(2) Includes both filing and nonfiling 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.
(4) Proposal would also limit the credit to the first $500,000 of debt on a primary home, a second home, and/or a home equity loan. Estimates assume that taxpayers would adjust their investment portfolio and pay down their mortgage balance if their tax benefit from mortgage interest were reduced.