

**TAX POLICY CENTER**  
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## **RACIAL AND ETHNIC DISPARITIES IN THE HOME MORTGAGE INTEREST DEDUCTION**

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## ABSTRACT

A legacy of racial discrimination—in the housing market and mortgage lending industry, among other sectors—has led to lower rates of homeownership among Black and Hispanic families than among White families. One consequence of the lower homeownership rates is that Black and Hispanic families do not benefit as much from the home mortgage interest deduction as White families. Using the Urban-Brookings Tax Policy Center’s microsimulation model, we find that Black and Hispanic families received just 54 percent and 38 percent, respectively, of the average benefit for all families in 2019. In contrast, White families got 21 percent more than the average. Expiration of the individual provisions in the 2017 Tax Cuts and Jobs Act (TCJA) will more than double the share of families who claim the deduction in each group, in large part due to the reduction in the standard deduction amounts. Although the average benefit will rise for all groups, the relative disparities will not change substantially. A surprising result is that in the top income group, Black taxpayers receive a disproportionately larger benefit relative to White taxpayers under TCJA, but that relationship will be reversed after the expiration of the individual income tax provisions.

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## INTRODUCTION

The US federal tax code generally does not refer to race or ethnicity. Taxpayers are not asked about their race or ethnicity on their tax returns, and most taxpayers will never meet with an Internal Revenue Service employee in person. And yet, tax liabilities of Black, Hispanic, and White families may differ, even among those who otherwise seem similar, because some factors that affect tax liabilities are associated with race and ethnicity (Brown 2021; Moran and Whiteford 1996).

One example is the home mortgage interest deduction (HMID). Under the US tax code, people can reduce their individual income tax liabilities by subtracting interest payments on their home mortgages from their adjusted gross income. The deduction can be claimed by anyone who owns a home and pays interest on their mortgages. However, people can only claim the HMID if they choose to itemize qualifying expenses (which, in addition to mortgage interest, include qualifying state and local taxes, charitable contributions, and certain other types of expenditures) rather than take the standard deduction—a flat dollar amount that varies with marital status rather than the amount of their deductible expenditures.

However, a legacy of discrimination in the housing market and mortgage lending industry has contributed to lower homeownership rates among Black and Hispanic families than among White families. Pervasive and historic discrimination has also limited the opportunities for people of color to accumulate assets, which could be passed on to descendants to help finance their home purchases. Consequently, many Black and Hispanic families do not purchase homes and therefore have no mortgage interest to deduct.

And among homeowners, other factors—often linked to income—reduce the likelihood that Black and Hispanic families either itemize or receive as high a tax benefit from claiming the deduction as White families. First, homeowners may not itemize because the standard deduction is more advantageous than itemizing: Their income tax liabilities are lower if they claim the standard deduction, which is greater than the sum of their total itemized deductions.

Second, the value of deductions depends on people's tax rate brackets, in addition to the amount of mortgage interest payments. In the United States, the structure of the individual income tax rate brackets is progressive: Tax rates increase as people's income rise, pushing them into higher tax brackets. But that progressive structure has the inverse result of making the HMID more valuable for higher-income taxpayers because its tax value is the product of the amount of deductible expenses and the tax rate.

In this paper, we examine disparities—by income, race, and ethnicity—in the take-up and the tax benefit of the HMID in 2019. We also assess how the scheduled 2025 expiration of the individual income tax provisions in the 2017 Tax Cuts and Jobs Act (TCJA) will affect those outcomes. The expiration will result in a return to 2017 tax law, with its lower standard deduction, the removal of a cap on the itemized deduction for state and local taxes, and higher tax rates.

We find that although about three-quarters of White families owned their homes in 2019, only 45 percent of Black and 48 percent of Hispanic families did. Across the distributions of both income and wealth, the average value of the homes of

White families exceeded that of homes owned by Black families. Throughout most of the income distribution, White families were also more likely to have a mortgage than Black and Hispanic families, although Black families generally had higher loan-to-value ratios.

We estimate that under 2019 law, the average tax benefit of the HMID was \$199 across all White families (including those who did not claim it or file a tax return). In contrast, the benefit was, on average, \$88 for Black families and \$66 for Hispanic families. Overall, Black and Hispanic families received just 54 percent and 38 percent, respectively, of the average benefit for all families. In contrast, White families got 21 percent more than the average.

Although Black families typically received disproportionately smaller benefits from the home mortgage deduction throughout most of the income distribution, the pattern was reversed at the top of the income distribution. Black families in the highest income quintile more frequently had a mortgage, and disproportionately larger benefits from the mortgage interest deduction, than White and Hispanic families. Among families in the top 5 percent, Black families' tax benefits were 25 percent higher than the average for all families. We speculate that among very high-income families, more Black families may have to rely on mortgage lending to finance the purchase of a home, relative to White families, who are more likely to receive assistance or an inheritance from their relatives.

The expiration of TCJA's individual income tax provisions, scheduled to occur at the end of 2025, will more than double the shares of each race and ethnicity group that would claim the HMID. That result is largely driven by the reduction in the standard deduction amount. Because of the expiration, many taxpayers will find that itemizing deductions will reduce their income taxes by more than claiming the simpler standard deduction.

But generally, the relative disparities in the average amount of the tax benefit would not be substantially different after TCJA's expiration and the return to 2017 law. Overall, White and Black families would receive roughly the same proportion of the average tax value of the home mortgage deduction as before. Among Hispanic families, their average tax benefit would rise to about half the average for all families. In the top income quintile, the gap between Black and White families would narrow, and Black families would no longer receive disproportionately large benefits.

In this paper, we begin with a description of the tax treatment of personal residences. Next, we review data about racial and ethnicity gaps in net wealth and homeownership and prior research on the reasons for those differences. We turn then to our empirical analysis of the impact of the HMID on tax liabilities, by income, race, and ethnicity under 2019 tax law and after the expiration of the TCJA and the return to 2017 law. An appendix contains a similar analysis for the impact by age and race under 2019 law.

## **TAX PREFERENCES FOR HOMEOWNERS**

The US tax code subsidizes homeownership through exclusions, deductions, and preferential tax rates on capital gains from the sale of homes. Moreover, those "tax expenditures" interact with other provisions in the tax code in ways that accentuate the benefits for higher-income homeowners. Some of these provisions were temporarily changed under the Tax

Cuts and Jobs Act (TCJA) of 2017, affecting both the numbers of homeowners benefitting from the tax subsidies and the amount that they received. The TCJA individual income tax provisions will expire at the end of 2025.

### ***Exclusions and Deductions***

Tax policy analysts use the term “imputed rent” to refer to some of the benefits derived from owning a home. When considering the benefits of owning a home, people typically focus on the fact that they are no longer paying rent to a landlord. Viewed from another perspective, homeowners’ incomes increase by the value of the shelter and other services they receive from investing in owner-occupied housing. But that income—or imputed rent—is tax free, in large part because of the administrative challenges of taxing unobserved income.

Moreover, homeowners can deduct all or a portion of the mortgage interest paid on their primary residence or secondary residence from taxable income. Discount points—amounts paid at closing in exchange for a lower interest rate—are deducted ratably over the term of the mortgage but can be deducted when paid if the taxpayer uses the cash method of accounting.

The amount of deductible interest depends partly on when homeowners took out their mortgages. Interest on mortgages taken out before October 31, 1987, are fully deductible. Mortgages taken out after that time but before December 16, 2017, must be smaller than \$1 million for the interest to be deductible. Under the TCJA, mortgages taken out after December 16, 2017, must be smaller than \$750,000 for the interest to be deductible.

Itemizers can also deduct property taxes, though the amount, combined with other qualifying state and local taxes, is capped at \$10,000 through the end of 2025. (This feature is commonly known as the SALT deduction.) The cap is set at the same amount for both unmarried and married filers.

### ***Taxation of Capital Gains Under 2019 Law***

The US federal tax code does not apply the same tax treatment to all types of income. Net income from certain assets—including net income associated with homeownership—receive preferential treatment relative to “ordinary” income, which includes interest as well as wages and salaries, net self-employment income, and other types of income that are not derived from those assets.

As a baseline for comparison, first consider the tax rates applied to ordinary income. In 2024, those rates range from 10 to 37 percent. In addition, a surtax—the net investment income tax—may apply to interest income, in combination with nearly all other types of investment income, when adjusted gross income (after some modifications) exceeds a threshold. The rate is 3.8 percent, and the thresholds are \$250,000 for married couples filing a joint tax return and \$200,000 for unmarried taxpayers.

Capital gains—the receipts from the sale of an asset, net of its cost—may be taxed at lower rates than other types of income. The tax code distinguishes between short-term and long-term net capital gains by how long an asset was held before being sold: The net gains from the sale of an asset held for longer than a year are categorized as long-term; otherwise, the net gains are short-term. In 2024, the tax rates on long-term gains and qualified dividends are 0, 15, and 20 percent. Short-term capital gains and nonqualified dividends are taxed at ordinary tax rates. (The net investment income tax, described above, applies to both short-term and long-term capital gains.).

Net profits from the sale of personal residences are also taxed at those lower rates if the homeowner owned the property for over a year before selling it. But in other ways, the tax treatment of the net profits from home sales diverges from other types of capital gains. Homeowners can exclude up to \$250,000 (\$500,000 for married couples filing joint tax returns) of such gains from taxable income. But whereas taxpayers can deduct losses from the sales of many types of assets, losses from the sale of personal property—including personal residences—are not deductible. Although the treatment of capital gains from the sale of homes is an important feature of the tax treatment of housing, we do not consider its effects in this paper.

### ***Interactions with Other Tax Provisions***

Though not specific to homeownership, other provisions in the tax code may affect the value of the tax benefits for personal residences. For homeowners who itemize, their tax bracket can affect the value of the itemized deductions. Further, the decision to itemize can be driven by the interactions between the deductions for mortgage interest and SALT with the standard deduction and other itemized deductions.

The progressive rate structure of the income tax has the inverse effect of making the deductions more valuable to higher-income taxpayers than for those with lower incomes. Because taxpayers in the top income brackets face higher tax rates, the deduction is worth more to them than to lower-income taxpayers. A deduction for \$10,000 of annual interest reduces taxes by \$3,700 for a taxpayer in the 37 percent tax bracket but by only \$1,000 for a taxpayer in the 10 percent tax bracket.

The decision to claim the deductions for mortgage interest and SALT partly depends on the amounts of the standard deduction and other itemized deductions. Taxpayers have a choice between itemizing and claiming the simpler standard deduction. Often that decision will be based on whether the amount of their total itemizable expenses (also including medical expenses and charitable contributions) exceeds the amount of the standard deduction. In 2024, the standard deduction ranges from \$14,600 for single filers to \$29,200 for married couples filing jointly. For those who do not itemize, the value of the HMID may be zero, but they still benefit—along with renters—from the standard deduction and, in most cases, by more than if they itemized.



## ***Tax Law After the Expiration of TCJA's Individual Income Tax Provisions***

Most of the individual income tax provisions included in the Tax Cuts and Jobs Act of 2017 are temporary and will expire at the end of 2025. That expiration will affect the value of the homeownership deductions—either directly or indirectly and by either raising or decreasing their value.

The restoration of 2017 law will increase the amount of mortgage interest and qualifying state and local taxes that can be deducted. Homeowners will be able to deduct interest on mortgages of up to \$1 million for those obtained after October 31, 1987. Moreover, the \$10,000 SALT cap will be lifted. Consequently, taxpayers will be able to deduct all of those state and local taxes if they itemize.

Offsetting those expansions to the two deductions will be the restoration of a cap on total itemized deductions. Before TCJA, taxpayers reduced their itemized deductions by 3 percent of every dollar of adjusted gross income above certain thresholds (\$313,800 for married couples filing jointly and \$261,500 if single). The total reduction was capped at 80 percent of the total value of itemized deductions.

Other changes to the tax code will increase the benefit to itemizing. In 2026, the rates will revert to 2017 law with the top rate rising from 37 percent to 39.6 percent. For taxpayers in the top rate bracket, the tax value of a \$10,000 deduction will rise from \$3,700 to \$3,960.

Moreover, the value of the standard deduction will fall by nearly half in 2026 relative to what it would be if TCJA is extended. If the standard deductions in 2024 were set at 2017 levels (in 2024 dollars), the amounts would be \$8,050 for single filers and \$16,100 for married couples filing jointly. The lower standard deduction in 2026 will make itemizing more appealing for those taxpayers who have qualifying deductions above the reduced standard deduction.

## ***Revenue Effects of Tax Subsidies for Homeownership***

The four tax subsidies for homeownership—the exclusion of imputed rent and some of the capital gains from the sale of a home and the itemized deductions for home mortgage interest and property taxes—are altogether the largest source of federal assistance for housing. Their combined value far exceeds the \$55 billion spent in fiscal year 2023 by the Department of Housing and Urban Development in fiscal year 2023. In contrast, the Treasury Department estimated that tax expenditures for the exclusions of imputed rent and capital gains from home sales were \$147 billion and \$54 billion, respectively, in 2023. The estimates for the two deductions were smaller: \$32 billion for the home mortgage interest and \$7 billion for property taxes.

The expiration of the TCJA individual income tax provisions will substantially increase the value of itemized deductions, in large part due to the reduction of the standard deduction and the restoration of the higher individual income tax rates. Thus, the value of the HMID will nearly triple to \$88 billion in 2027, according to Treasury Department estimates. And with the elimination of the SALT cap, the value of the property tax deduction will also increase dramatically—up to \$51 billion in 2027.

## RACIAL AND ETHNIC DIFFERENCES IN NET WEALTH AND HOMEOWNERSHIP

Taxpayers must own a home to qualify for any of the tax subsidies described in the prior section, and only those who finance a home through a mortgage can claim the HMID. But Black and Hispanic families are much less likely to benefit from those subsidies than White families, reflecting the racial and ethnic gaps in net wealth and homeownership.

Many researchers have noted that there is a substantial gap between the net wealth of White, Black, and Hispanic families. According to the Federal Reserve’s Survey of Consumer Finances (SCF), non-Hispanic White families had, on average, eight times the net wealth of the typical non-Hispanic Black family in 2019. That gap narrowed in 2022 in part due to increases in homeownership and housing values, but it is too early to determine if that change is permanent or a temporary effect of lower interest rates during the pandemic.

### ***Racial Wealth Gap***

Even against the backdrop of continuing racial hostilities and discrimination, the ratio of median net wealth among White families relative to Black families fell from about 60 to 1 in 1860 to about 10 to 1 in 1920 (Derenoncourt et al. 2022). Since the 1950s, this convergence of wealth has stalled: In 2016, the gap between White and Black families remained at 10 to 1. More recently, however, data from the Survey of Consumer Finances (SCF) indicates that the racial wealth gap is narrowing—though the gap remains large.

Across all families, net wealth—assets, net of liabilities—totaled \$96 trillion in 2019. White families held about 85 percent of net wealth, although they represented less than two-thirds of all families. In contrast, 14 percent of families were Black, but they owned only 3 percent of net wealth. One in 10 families was Hispanic, and they possessed just 2 percent of net wealth. The median net wealth of White families was eight times that of Black families and five times that of Hispanic families.

Despite the economic disruption caused by the COVID-19 pandemic, net wealth rose to \$139 trillion in 2022—a 25 percent increase from 2019, after adjusting for inflation. The median net wealth increased more rapidly for Black and Hispanic families than for White families—up by 58 percent, 49 percent, and 30 percent, respectively. Consequently, the net racial and ethnic wealth gaps narrowed, with the median net wealth of White families falling to six times that of Black families. The gap between White and Hispanic families, however, fell by less than a percentage point.

## Homeownership by Race and Ethnicity

In large part, the narrowing of the racial and ethnic wealth gaps between 2019 and 2022 reflected the growth in housing equity among Black and Hispanic families. The median net housing value for the typical Black family grew faster than for other families between 2019 and 2022, and the growth rate in homeownership—accompanied by a relatively large increase in new mortgage applications—was largest for Hispanic families (figures 1 and 2).

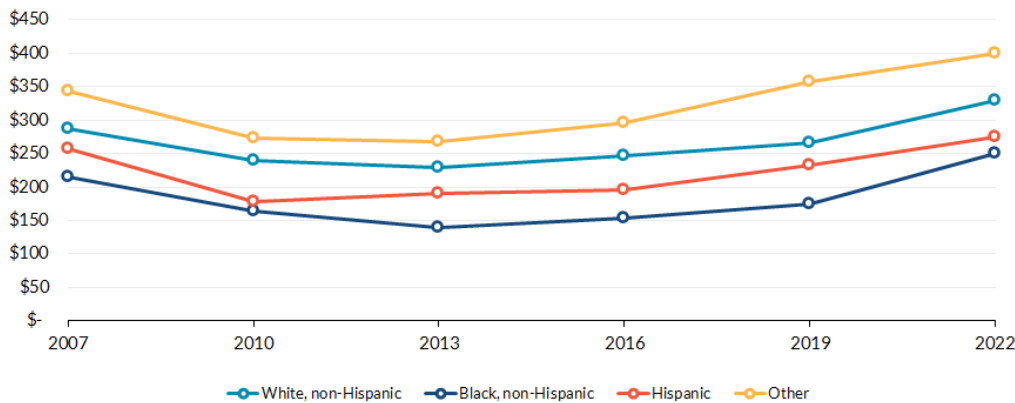
However, those surges in home equity may reflect the uniqueness of the COVID-19 pandemic combined with historically low interest rates. As interest rates rebounded, the number of mortgage originations to Black families dropped in 2022 by more than 16 percent, and the Black mortgage denial rate increased by 3 percent (Choi et al. 2024). In our

FIGURE 1

### Median Values of Primary Residence by Race and Ethnicity, 2007 to 2022



Amounts are in 2022 dollars

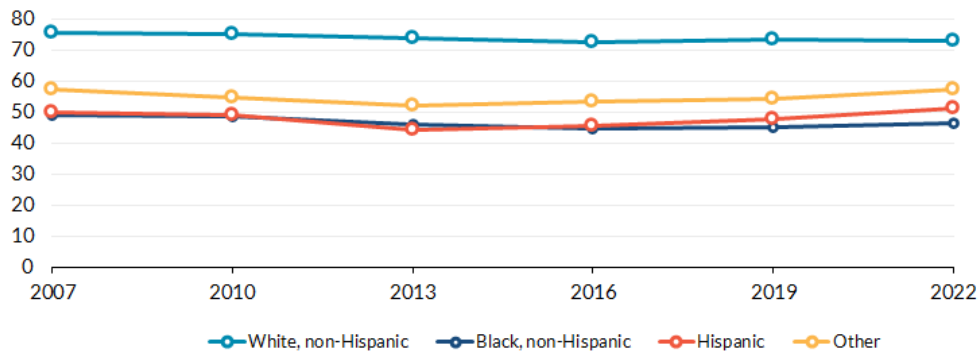


Source: Federal Reserve. 2022. "Survey of Consumer Finances, 1989 - 2022."

[https://www.federalreserve.gov/econres/scf/dataviz/scf/chart/#series:Primary\\_Residence;demographic:racecl4;population:1,2,3,4;units:median](https://www.federalreserve.gov/econres/scf/dataviz/scf/chart/#series:Primary_Residence;demographic:racecl4;population:1,2,3,4;units:median)

FIGURE 2

### Shares of Families Owning Primary Residence by Race and Ethnicity, 2007 to 2022



Source: Federal Reserve. 2022. "Survey of Consumer Finances, 1989 - 2022."

[https://www.federalreserve.gov/econres/scf/dataviz/scf/chart/#series:Primary\\_Residence;demographic:racecl4;population:1,2,3,4;units:median](https://www.federalreserve.gov/econres/scf/dataviz/scf/chart/#series:Primary_Residence;demographic:racecl4;population:1,2,3,4;units:median)

analysis, we will focus on homeownership in 2019.

Overall, families' personal residences are the most valuable asset in their investment portfolio, but significant long-term racial and ethnicity gaps persist. As a share of gross assets in 2019, personal residences were 44 percent for Black families, 51 percent for Hispanic families, and just 24 percent for White families.

Even so, homeownership rates and home values were generally lower for Black families than for White families in every income and wealth group. Whereas nearly three-quarters of White families owned their homes in 2019, only 45 percent of Black and 48 percent of Hispanic families were homeowners. Among Hispanic families, however, homeownership rates rose to 51 percent in 2022. In 2019, the median value of a Black family's home was \$150,000, compared with \$230,000 for a White family's home. Among Hispanic families, the median home value was \$200,000. From 2019 to 2022, the median value for Black families rose by 44 percent, after adjusting for inflation—the largest increase among the three groups.

Within each income quintile, the gap persisted between the average value of the homes of White families and that of homes owned by Black families. Among those with incomes in the middle quintile, the average value in 2019 was about \$176,000 for Black families and \$231,000 for White families. In the highest income quintile, the gap was broader: \$436,000 for Black families and \$571,000 for White families. In both income quintiles, however, the average home value for Hispanic families was higher than for Black and White families—about \$20,000 higher than for White families in the middle-income group and \$58,000 in the top quintile.

Overall, White families were more likely to have a mortgage than Black and Hispanic families (28 percent for Black families, 32 percent for Hispanic families, and 47 percent for White families). But Black and Hispanic families relied more on mortgages to finance their home: The loan-to-value ratio was highest for the typical Black family (0.77). For the typical Hispanic and White families, the loan-to-value ratio were 0.65 and 0.57, respectively. But notably, the prevalence of mortgages among Black families in the highest income quintile was substantially higher than for White and Hispanic families (84 percent compared with roughly 71 percent for both White and Hispanic families).

As with average housing values, the average amount of mortgage debt was higher for Hispanic families in the middle- and top-income quintiles than for Black families. The average amount of mortgage debt in the middle-income group was generally higher for Hispanic families with mortgages than for Black and White families: roughly \$110,000 for both Black families and White families, compared with \$155,000 for Hispanic families. And at the top income quintile, those average values were about \$222,000 for Black families, \$325,000 for Hispanic families, and \$337,000 for White families.

White families (including both those who claim the HMID and those who do not) were more prone to pay any home mortgage interest than the other groups in the bottom four quintiles, and Black families were the most likely to make mortgage interest payments at the top of the income distribution (table 1). Among families that held home mortgages, Hispanic families paid, on average, more mortgage interest than White families in all income quintiles (table 2). Particularly in the middle quintiles, White families' payments were similar in size to those made by Black families, and both groups made smaller payments than other families above the first income quintile.

**TABLE 1**

Share of Families with Home Mortgage Interest, 2019



Expanded cash income (percentile)	Families with home mortgage interest, 2019 (%)			
	Black families	Hispanic families	White families	Other families
Lowest quintile	5.3	3.2	5.4	3.9
Second quintile	14.3	11.7	19.6	13.8
Middle quintile	30.5	28.5	42.7	29.4
Fourth quintile	55.3	55.2	61.1	51.8
Top quintile	79.4	71.9	74.4	75.7
80-90	77.5	71.2	73.0	72.5
90-95	79.1	73.8	76.3	78.7
95-100	86.5	72.0	75.5	78.2

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0721-2).

**TABLE 2**

Average Home Mortgage Interest among Those with Mortgage Interest, 2019



Expanded cash income (percentile)	Average home mortgage interest (\$)			
	Black families	Hispanic families	White families	Other families
Lowest quintile	2,120	4,040	2,890	2,780
Second quintile	3,030	4,620	2,910	3,460
Middle quintile	3,610	4,760	3,760	4,970
Fourth quintile	5,520	6,270	5,650	6,760
Top quintile	9,690	11,010	10,400	12,150
80-90	8,230	9,450	8,170	9,300
90-95	8,830	12,290	10,120	12,040
95-100	15,330	15,330	15,110	16,820

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0721-2).

## ***Reasons for Differences in Homeownership and Mortgage Rates***

A history of discrimination in the housing market and mortgage lending industry has resulted in long-lasting racial gaps in homeownership rates and housing wealth. The practices of redlining and covenants in property deeds blocked people from homeownership in some communities based on their race, ethnicity, and religion (Rothstein 2017; Schill and Wachter 1995).

Even after such practices were banned under the Fair Housing Act of 1968, housing values in formerly redlined census tracts continue to be lower than in adjacent neighborhoods (Appel and Nickerson 2016). Homes in Black-majority communities remain valued at less than similar homes in White-majority neighborhoods, with only about half the gap explained by differences in crime rates, commuting times, access to high-scoring schools, and other amenities (Perry et al. 2018).

Lower valuations persist even when the race of the homeowner or the racial composition of their community are explicitly omitted from the valuation process. After the Great Recession, government-sponsored enterprises began to rely more on automated underwriting systems rather than in-person appraisals. Those automated systems are thought to reduce the potential for racial discrimination and human bias because of the omission of data on the race of the homeowner and the racial composition of the community (Neal et al. 2020). However, historic data are typically used to estimate home values, and past practices of discrimination may still be embedded in the automated systems (Zhu et al. 2022).

Differences in the financing of home purchases also contribute to racial discrepancies in homeownership and housing costs. Asian, Black, and Hispanic families are more likely to be denied mortgages than White families. But even if race is not observed by the lender, other factors—sometimes associated with race and ethnicity—may increase the likelihood that a mortgage application is rejected.

For example, credit bureau data reveal that Black and Hispanic families are more likely to have low or missing credit scores, delinquencies, bankruptcies, and high levels of debt (Dey and Brown 2022), contributing to the racial differences in the likelihood of obtaining a mortgage. Several studies found that even after controlling for credit quality and demographic characteristics, Black mortgage applicants were much more likely to be rejected (Bartlett et al. 2022; Charles and Hurst 2002; Kopkin 2018). With higher credit scores and income than White families, Asian families have a greater probability of rejection when applying for a mortgage—even within groups with similar debt-to-income ratios.<sup>1</sup>

Still, a recent study suggests that racial discrepancies in mortgage denials may be declining. Unlike the other studies, Bhutta and colleagues (2022) and Munnell and colleagues (1996) had access to confidential supervisory data that included each applicant's actual credit scores, collected under the Home Mortgage Disclosure Act. A comparison of the two studies shows a substantial decline over time in denials of mortgage applications from Black applicants relative to White applicants after accounting for differences in credit scores, leverage, and other personal characteristics.

While Bhutta and colleagues (2022) suggest their finding reflects that anti-discrimination legislation has become more effective over time, they also cannot reject the possibility that factors such as lower credit scores are the result of

discriminatory practices in other sectors (such as the labor market or educational system). Moreover, their study focuses solely on individuals who apply for mortgages and thus does not account for others who do not apply—possibly because of lack of sufficient funds for downpayment or apprehension based on past lending practices that they would be rejected.

That concern is supported by other studies that find variation in mortgage applications between White and Black families. Black families are less likely to apply for a mortgage than comparable White families. In the mid-1990s, differences in the probability of initiating a mortgage application explained roughly 93 percent of the gap in transitions into homeownership (Charles and Hurst 2002), and more recent data confirm this lower propensity among Black consumers to make mortgage inquiries (Dey and Brown 2022).

When Black buyers obtain a mortgage, they are more likely than White buyers to pay a higher interest rate (Bartlett et al. 2019; Cheng et al. 2015; Ghent et al. 2014). Bhutta and Hizmo (2021), however, find that homebuyers can choose to pay discount points upfront in exchange for a lower interest rate. White and Asian homebuyers are more likely than Black and Hispanic families to choose a combination of a lower interest rate and more discount points.

One reason why Black families may pay less upfront than White families is the lack of inherited wealth. Some studies find that differences in bequests and family support account for more of the racial wealth gap than any other demographic or socioeconomic indicator (Blau and Graham 1990; Hamilton and Darity 2010; Menchik and Jianakoplos 2007). In the 2019 SCF, 30 percent of White families reported having received an inheritance, compared with 10 percent of Black families and 7 percent of Hispanic families. Similarly, a much higher share of White families anticipated a future bequest (Bhutta et al. 2020).

White families are also much more likely to receive financial assistance from relatives for a down payment on a house than Black families. In the early 1990s, 42 percent of White families obtained help from relatives for the down payment on a home, but less than 10 percent of Black families benefited from similar assistance (Charles and Hurst 2002). White college graduates are also more likely to have received financial assistance from their parents for college than Black college graduates who, in addition, are more likely to provide financial support to older generations (Meschede et al. 2017).

Racial disparities in asset holdings can contribute to longer-run trends in wealth disparities through the intergenerational transmission, not only of accumulated wealth, but also of risk preferences and investment strategies. Both asset ownership probabilities (Chiteji and Stafford 1999) and asset portfolio choices (Charles and Hurst 2002) are correlated across generations.

### ***Do Tax Incentives Affect Decisions to Purchase Homes?***

Despite the magnitude of the current tax subsidies for homeownership, they are not well designed to encourage purchases of homes. Imputed rent is an obscure concept, which few taxpayers likely know or understand. The capital gains exclusion rewards appreciation of home values, and the property tax deduction offsets the costs of living in high-tax states and localities.

Even the HMID is not designed to encourage home purchases because it does not provide any assistance for downpayments—a high hurdle to overcome on the path to homeownership. Consequently, some researchers have found that the deduction does not spur individuals to buy a home, though it does result in homeowners taking out larger mortgages and purchasing more expensive homes.<sup>2</sup>

Some researchers have examined the effect of the mortgage interest deduction on the price of housing but obtained very different results—ranging from a slight change in housing costs (Bruce and Holtz-Eakin 1997) to a substantial impact (Gruber, Jensen, and Kleven. 2021; Hanson and Martin 2016; Hilber and Turner 2013). Sommer and Sullivan (2018) find, though, that eliminating the HMID would, on net, lower home prices sufficiently to increase demand for housing—benefitting people who had not been able to itemize before the repeal and negatively impacting wealthier homeowners who had previously claimed the deduction.

More recent studies have focused on the effect of TCJA on home prices. TCJA’s potential impact on the housing market is ambiguous. Some provisions—such as those that reduced the tax benefits of itemizing and claiming the deductions for mortgage interest and property taxes—might lower demand and prices. But by reducing income tax rates and thus increasing after-tax income, TCJA might raise demand and put upwards pressure on house prices.

In the immediate aftermath of TCJA’s passage, some researchers extrapolated from historical data to predict a drop in housing prices ranging, on average, from 2 percent (Rappaport 2019) to 6 percent (Martin 2018). Another study found that TCJA would not substantially change house prices, on average (Sommer and Sullivan 2019). However, the studies revealed wide variation by location (Rappoport 2019, Martin 2018). Moreover, overconsumption of housing by the very wealthy persisted because they benefited from lower housing prices, and itemizing—and claiming the deduction—was still more advantageous to them than the standard deduction (Sommer and Sullivan 2019).

Combining more recent data from several sources, including the American Community Survey, information collected under the Home Mortgage Disclosure Act, and Zillow, McClelland et al (2022) were able to examine the impact of the legislation on housing prices from before and after TCJA’s passage. They estimated that the overall effect of TCJA on housing prices was modest. But like the earlier studies, they found the impact varied across locations, with prices declining in areas with very high-income populations and communities with very expensive homes and rising in areas with the opposite attributes.

Unlike the other studies of the impact of TCJA, McClelland and colleagues (2022) also looked at racial differences in TCJA’s effect on housing prices. They found the largest price increases occurred in communities that were largely White, with a nearly equal decline in prices in areas with more sizable Asian populations. TCJA raised prices slightly in areas with a relatively small Black population more than in communities with a larger Black population, but the gap was substantially less than the differences between predominantly Asian and White communities.



## METHODOLOGY

In the next sections, we examine how the tax benefits of the HMID (HMID) vary across families based on their income, race, and ethnicity. (In the appendix, we consider how the tax benefits of the HMID varies by race, ethnicity, and age.)

### *TPC Tax Model*

For this analysis, we used TPC’s large-scale microsimulation model.<sup>3</sup> TPC regularly produces analyses of the distributional effects of various tax provisions under current law and potential changes to the tax code using that microsimulation model, which can analyze current law and numerous potential policy changes and predict the change in after-tax income for taxpayers across the income distribution and by age, marital status, and presence of children. Those distributions generally do not incorporate behavioral responses to policy changes.<sup>4</sup>

Because tax returns do not contain race and ethnicity, TPC imputed those characteristics onto the tax model (see Khitatrakun et al. 2023 for a description of the methodology). The current version of TPC’s model uses the 2019 SCF’s four categories of race and ethnicity: Black Non-Hispanic, Hispanic or Latino, White Non-Hispanic, and other (the latter includes people identifying with more than one race). For simplicity, we refer to the TPC categories as Black, Hispanic, White, and other. At the current time, those race and ethnicity imputations are benchmarked only to 2019 levels; thus, our analysis is based on the demographic and financial characteristics of families in 2019.

### *Disproportionality Index*

The standard TPC distribution tables show the impact of a change in families’ tax burdens. For example, TPC’s distribution of a tax proposal would show the change in average taxes in each income group.<sup>5</sup> The income groups are presented by either dollar groupings or quintile categories (with more detailed groupings also provided for households in the top quintile). The tables thus provide insight into how the tax burden in an income group compares to the average across all families, as well as how the tax burden varies across income groups.

We were interested in how the relative shares of the total tax burden would be distributed among Black, Hispanic, White, and other families by income grouping. We addressed this issue by using disproportionality indexes (DI), as discussed in Holtzblatt and colleagues (2023). The DI is calculated as the ratio between the average change in taxes of members of a subgroup and the average tax change of a larger group.

For example, assume that a proposed change in tax law would lead to an average increase of \$30 for Black families in the middle-income quintile and a \$90 increase for all families in the same quintile. The DI for Black families in the middle-income quintile would be  $\$30/\$90$ , or  $1/3$ .

Thus, a DI of 1 indicates that the racial or ethnic group would experience a change that is proportional to its representation in the income group. A value greater than 1 shows that the group would experience a disproportionately large change, and a value less than 1 indicates a disproportionately small change for that group. By construction, if one race group has a DI of less than 1, another race group must have a DI greater than 1.<sup>6</sup>

The quintile categories are based on the income distribution of the *entire* population and contain an equal number of people. Consequently, the income cutoffs are the same for all racial and ethnic groups, which results in an uneven distribution of families by income within a demographic group and has implications for the interpretation of the findings. For example, the average DI for all Black families might be lower or higher than any of the DIs in a quintile. Similarly, it is possible for the DI for an income quintile (regardless of race or ethnicity) to be lower than the DIs for subcategories within that quintile because of the uneven distribution of families.

Some cases show the number of families within a group—based on race, income, and possession of a home mortgage—may be relatively small, resulting in an anomalous result. We indicate where those cases arise.

## **DISTRIBUTION OF HOME MORTGAGE INTEREST DEDUCTION BY RACE AND ETHNICITY UNDER 2019 TAX LAW**

As observed earlier in the paper, homeownership and mortgage rates vary substantially among families by race, ethnicity, and income. Those differences also contribute to racial disparities in the receipt and value of the HMID. This section presents estimates of the differences in the value of the HMID among Black, Hispanic, White, and other families. The estimates are based on 2019 tax law and reflect TCJA’s lower income tax rates, higher standard deduction, and the \$10,000 cap on the SALT deduction. The tax value of the HMID is computed by taking the difference between a family’s tax liability with the deduction and their liability if the deduction was repealed. In the tables below, the amounts labeled “tax increases” represent the tax value (or benefit) of the deduction.

For most homeowners, their income taxes under 2019 law were lower if they claim the standard deduction rather than itemizing deductions. Consequently, we estimate that only 8 percent of families claimed the HMID in 2019. Across all families (including those who did not have mortgages), the HMID lowered income taxes, on average, by \$160 (table 3).

The impact of the HMID was felt most strongly in the upper ranges of the income distribution. Although the tax value of the HMID was, on average, \$930 among families in the top quintile, those in the bottom two quintiles derived almost no benefit on average. Nearly 80 percent of the benefits of the HMID went to families in the top income quintile. Families in the top 5 percent received almost half of the benefits, with an average tax value of nearly \$2,300.

Those findings resulted from a combination of the number of families in each quintile who deducted home mortgage interest and the tax value of the deduction. Less than 5 percent of families in the lowest three quintiles deducted mortgage income, with the average tax value of the deduction for those itemizers ranging from \$260 in the lowest quintile to \$780 in the middle quintile. In contrast, more than 30 percent of families in the top quintile used the HMID and received an average benefit of nearly \$3,000. Among families in the top 5 percent, over half claimed the HMID, and their average tax benefit was about \$4,500.

**TABLE 3**

**Repeal of Home Mortgage Interest Deduction**  
 All filing units in 2019  
 Baseline: 2019 law



Expanded cash income percentile	Tax units with tax increase or cut						Average federal tax rate			
	With tax cut			With tax increase			Share of total federal tax change	Average federal tax change (\$)	Change (%) points)	Under the proposal
	Pct of tax units	Avg tax change (\$)	Pct of tax units	Avg tax change (\$)	Percent change in after-tax income					
Lowest quintile	0	0	0.1	260	0.0	0.0	-	0.0	0.0	2.9
Second quintile	0	0	1.1	350	0.0	0.5	-	0.0	0.0	7.7
Middle quintile	0	0	4.9	780	-0.1	4.7	40	0.1	0.1	13.2
Fourth quintile	0	0	12.7	1,260	-0.2	16.2	160	0.1	0.1	17.0
Top quintile	0	0	31.4	2,960	-0.3	78.5	930	0.2	0.2	24.2
All	0	0	7.8	2,120	-0.2	100.0	160	0.2	0.2	19.0
Addendum										
80 – 90	0	0	22.0	1,760	-0.2	16.8	390	0.2	0.2	19.8
90 – 95	0	0	32.0	2,290	-0.3	15.5	730	0.3	0.3	22.1
Top 5 percent	0	0	50.9	4,510	-0.4	46.2	2,300	0.3	0.3	27.0

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0721-2).

**Notes:**

- (1) Calendar Year. Baseline is the law currently in place as of 2019. Provision would eliminate the Home Mortgage Interest Deduction.
- (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: Tax Policy Center, "Income Measure Used in Distributional Analyses by the Tax Policy Center," <http://www.taxpolicycenter.org/TaxModel/income.cfm>.
- (3) The income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The incomes used are adjusted for family size by dividing by the square root of the number of people in the tax unit. The resulting percentile breaks are (in 2020 dollars): 20% \$17,900; 40% \$35,100; 60% \$60,600; 80% \$101,900; 90% \$148,100; 95% \$207,500.
- (4) Includes tax units with a change in federal tax burden of \$10 or more in absolute value.
- (5) 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 tax; and excise taxes.
- (6) For income categories for which the baseline tax burden is negative, a positive percent change in average federal tax indicates a net increase in federal subsidies, and a negative percent change indicates a net decrease in federal subsidies.
- (7) 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.

The value of the HMID varied across racial and ethnic groups, following the same patterns as observed in the groups' homeownership rates, home values, and reliance on mortgage financing. Just as Black and Hispanic families' homeownership rates were substantially lower than those of White families, there was a large gap in the HMID claim rates among the groups. The average tax values across all Black families and Hispanic families were \$88 and \$66, respectively. In contrast, the average benefit was \$199 for White families and \$236 for other families. About 5 percent of Black families and 4 percent of Hispanic families used the deduction, whereas the deduction was claimed by about 9 percent of White and other families.

**TABLE 4**

**Disproportionality Indexes by Race and Ethnicity**  
**Repeal of Home Mortgage Interest Deduction**  
 Baseline: 2019 law



Expanded cash income percentile	Black	Hispanic	White	Other
Lowest quintile	0.8	1.8	0.9	0.2
Second quintile	0.6	1.1	1.1	0.6
Middle quintile	0.7	0.8	1.1	1.0
Fourth quintile	0.9	0.8	1.0	1.2
Top quintile	1.1	0.7	1.0	1.2
All	0.5	0.4	1.2	1.4
Addendum				
80-90	1.4	0.9	1.0	1.1
90-95	1.2	1.0	0.9	1.3
Top 5 percent	1.2	0.8	1.0	1.1

**Source:** Urban-Brookings Tax Policy Center Microsimulation Model (version 0721-2).

**Notes:**

- (1) Calendar Year. Baseline is the law currently in place as of 2019. Provision would eliminate the Home Mortgage Interest Deduction.
- (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: Tax Policy Center. "Income Measure Used in Distributional Analyses by the Tax Policy Center." <http://www.taxpolicycenter.org/TaxModel/income.cfm>.
- (3) The income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The incomes used are adjusted for family size by dividing by the square root of the number of people in the tax unit. The resulting percentile breaks are (in 2020 dollars): 20% \$17,900; 40% \$35,100; 60% \$60,600; 80% \$101,900; 90% \$148,100; 95% \$207,500.
- (4) Includes tax units with a change in federal tax burden of \$10 or more in absolute value.
- (5) 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 tax; and excise taxes.
- (6) For income categories for which the baseline tax burden is negative, a positive percent change in average federal tax indicates a net increase in federal subsidies, and a negative percent change indicates a net decrease in federal subsidies.
- (7) 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.

Consequently, White and other families experienced disproportionately large benefits from the HMID, and Black and Hispanic families received disproportionately small benefits. Overall, DIs were around 1 or above for White and other families and below 1 for Black and Hispanic families (table 4).<sup>7</sup> At 0.38, the DI was lowest for Hispanic families, meaning that they received, on average, just 38 percent of the average benefit for all families. With a DI of 0.54, Black families got, on average, about half the benefit received by all families. In contrast, White and other families received 20 to 40 percent more, on average, than families overall.

With some exceptions, DIs were highest for White and other families below the top quintile. For Black families, the DI remained under 1 in the lower four income quintiles, while the DI was above 1 for White families, other than in the bottom quintile. Notably, Hispanic families received a disproportionate share of the benefits from the HMID in the bottom quintile. That result is consistent with the finding in table 2, showing that average home mortgage interest in the first income quintile was highest for Hispanic families.

The distribution of benefits is quite different in the top income quintile. Unlike the bottom four quintiles, Black families in the top quintile had a disproportionately larger share of benefits (with a DI of 1.09). In the top 5 percent, the DI for Black families was 1.25, while Hispanic families had disproportionately small benefits (their DI was only 0.82). That finding, too, is consistent with the SCF data, which found a larger reliance on mortgage financing among high-income Black homeowners than other groups. In contrast to the other two groups, White and other families received a benefit nearly proportional to the average for all families.

With DIs near 1 for both Black and White families in the top two quintiles, the large gap in the overall DI might seem surprising. The wide gap in the overall DI reflects differences in the distribution of Black and White families across the income distribution (table 5). As noted earlier, there are an equal number of people in each quintile, but that does not apply to each racial and ethnic group separately. Because White and other families are more concentrated at the top of the income scale, their higher DIs in the top two quintiles effectively get more weight in the computation of the overall DI than those of Black and Hispanic families.

TABLE 5

## Shares of Families with Increase in Taxes Due to Repeal of Home Mortgage Interest Deduction by Race and Ethnicity

Baseline: 2019 law



Expanded cash income percentile	Black	Hispanic	White	Other
Lowest quintile	0.1	0.2	0.1	0.0
Second quintile	0.6	1.0	1.3	0.7
Middle quintile	3.6	3.5	5.5	4.5
Fourth quintile	12.5	10.0	13.1	12.6
Top quintile	37.1	26.0	31.1	34.1
All	4.8	3.7	9.3	9.0
Addendum				
80-90	29.5	19.3	21.6	22.1
90-95	39.8	30.0	31.2	35.2
Top 5 percent	60.1	46.0	50.3	53.6

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0721-2).

### Notes:

- (1) Calendar Year. Baseline is the law currently in place as of 2019. Provision would eliminate the Home Mortgage Interest Deduction.
- (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: Tax Policy Center. "Income Measure Used in Distributional Analyses by the Tax Policy Center." <http://www.taxpolicycenter.org/TaxModel/income.cfm>.
- (3) The income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The incomes used are adjusted for family size by dividing by the square root of the number of people in the tax unit. The resulting percentile breaks are (in 2020 dollars): 20% \$17,900; 40% \$35,100; 60% \$60,600; 80% \$101,900; 90% \$148,100; 95% \$207,500.
- (4) Includes tax units with a change in federal tax burden of \$10 or more in absolute value.
- (5) 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 tax; and excise taxes.
- (6) For income categories for which the baseline tax burden is negative, a positive percent change in average federal tax indicates a net increase in federal subsidies, and a negative percent change indicates a net decrease in federal subsidies.
- (7) 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.

Further, we find that it is the numbers of those itemizing their home mortgage interest in each group—rather than the dollar amounts of the deduction—that drive the differences among racial and ethnicity groups. Among just families deducting mortgage interest, the DIs were much narrower between racial and ethnicity groups (table 6). Especially for Black and White families, the DIs in each income group ranged between about 0.9 and 1.10. (The very low DI for other families in the lowest quintile and the relatively high DI for Hispanic families in the second quintile are the exceptions.)

**TABLE 6**

Disproportionality Indexes by Race and Ethnicity  
Among Homeowners Receiving a Tax Increase  
Repeal of Home Mortgage Interest Deduction  
Baseline: 2019 law



Expanded cash income percentile	Black	Hispanic	White	Other
Lowest quintile	0.9	1.1	1.0	0.5
Second quintile	1.1	1.2	0.9	1.0
Middle quintile	0.9	1.0	1.0	1.1
Fourth quintile	0.9	1.0	1.0	1.2
Top quintile	0.9	0.9	1.0	1.1
All	0.9	0.8	1.0	1.2
Addendum				
80-90	1.0	1.1	1.0	1.1
90-95	1.0	1.1	1.0	1.2
Top 5 percent	1.1	0.9	1.0	1.1

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0721-2).

**Notes:**

- (1) Calendar Year. Baseline is the law currently in place as of 2019. Provision would eliminate the Home Mortgage Interest Deduction among those receiving a tax increase.
- (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: Tax Policy Center. "Income Measure Used in Distributional Analyses by the Tax Policy Center." <http://www.taxpolicycenter.org/TaxModel/income.cfm>.
- (3) The income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The incomes used are adjusted for family size by dividing by the square root of the number of people in the tax unit. The resulting percentile breaks are (in 2020 dollars): 20% \$17,900; 40% \$35,100; 60% \$60,600; 80% \$101,900; 90% \$148,100; 95% \$207,500.
- (4) Includes tax units with a change in federal tax burden of \$10 or more in absolute value.
- (5) 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 tax; and excise taxes.
- (6) For income categories for which the baseline tax burden is negative, a positive percent change in average federal tax indicates a net increase in federal subsidies, and a negative percent change indicates a net decrease in federal subsidies.
- (7) 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.

## DISTRIBUTION OF HOME MORTGAGE INTEREST DEDUCTION BY RACE AND ETHNICITY UNDER 2017 TAX LAW

The individual income tax provisions in TCJA are scheduled to expire at the end of 2025. The restoration of 2017 tax law, including higher tax rates, lower standard deductions, and the removal of the SALT cap, is expected to increase both the number of itemizers—both in the aggregate and the number using the HMID—as well as the tax value of the HMID. To evaluate how the expiration of the TCJA will affect use of the HMID, we analyzed the benefits of the HMID in 2019 but without the TCJA provisions in place (that is, 2017 tax law).

With the expiration of the TCJA provisions, the benefit of the HMID increases, on average, from \$160 to \$400 (table 7). Moreover, the share of all families claiming the HMID will more than double, with close to one in five families deducting mortgage interest. The change in the average amount, not surprisingly, will be greatest for families in the top income quintile, where the average increases from \$930 to \$2,100. Two-thirds of the families in the top quintile will use the HMID, compared with less than a third under 2019 law.





**TABLE 7**  
**Repeal of Home Mortgage Interest Deduction**  
 All Filing units in 2019  
 Baseline: 2017 law

Expanded cash income percentile	Tax units with tax increase or cut						Average federal tax rate		
	With tax cut		With tax increase		Share of total federal tax change	Average federal tax change (\$)	Change (% points)	Under the proposal	
Pct of tax units	Avg tax change (\$)	Pct of tax units	Avg tax change (\$)	Percent change in after-tax income					
Lowest quintile	0	0	0.4	260	0.0	0.1	-	0.0	3.2
Second quintile	0	0	3.7	440	0.0	0.9	20	0.0	8.5
Middle quintile	0	0	15.3	810	-0.2	6.4	120	0.2	14.5
Fourth quintile	0	0	36.1	1,260	-0.5	19.1	450	0.4	18.5
Top quintile	0	0	67.9	3,100	-0.7	73.5	2,100	0.6	26.2
All	0	0	19.6	2,040	-0.5	100.0	400	0.4	20.6
Addendum									
80-90	0	0	62.7	1,980	-0.8	22.2	1,240	0.6	21.6
90-95	0	0	72.8	2,910	-1.0	18.5	2,120	0.7	24.1
Top 5 percent	0	0	74.0	5,340	-0.6	32.8	3,950	0.5	29.2

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0721-2).

**Notes:**

- (1) Calendar Year. Baseline is the law in place as of 2017. Provision would eliminate the Home Mortgage Interest Deduction.
- (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: Tax Policy Center. "Income Measure Used in Distributional Analyses by the Tax Policy Center." <http://www.taxpolicycenter.org/TaxModel/income.cfm>.
- (3) The income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The incomes used are adjusted for family size by dividing by the square root of the number of people in the tax unit. The resulting percentile breaks are (in 2020 dollars): 20% \$17,900; 40% \$35,100; 60% \$60,600; 80% \$101,900; 90% \$148,100; 95% \$207,500.
- (4) Includes tax units with a change in federal tax burden of \$10 or more in absolute value.
- (5) 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 tax; and excise taxes.
- (6) For income categories for which the baseline tax burden is negative, a positive percent change in average federal tax indicates a net increase in federal subsidies, and a negative percent change indicates a net decrease in federal subsidies.
- (7) 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.

However, a smaller share of the tax value of the HMID will go to the very highest-income families without TCJA’s individual provisions. The share of the tax benefits from the HMID received by families in the top 5 percent of income will drop from 46 percent to about one-third, with the rest of families—especially in the 80 to 95 percent group—receiving a larger share of the benefits.

That shift occurs largely because of increases in the share of families claiming the HMID—particularly for those in the 80 to 95 percentile group. The share of families claiming the HMID will rise by 40 percentage points in that group, compared with nearly 25 percentage points for the top 5 percent and over 10 percentage points for all families. Relative to the other income group, TCJA seems to be a more important factor in determining whether to itemize.

Overall, the resumption of 2017 tax law will reduce the average value of the HMID by less than \$100 for filers who itemize and claim the deduction even though the number of claimants will more than double. But the opposite is true of itemizers in the top quintile, particularly the top 5 percent for whom the average will increase by 18 percent.

Each racial and ethnic group is affected similarly by 2017 law relative to 2019 law. On average, the tax value of the

**TABLE 8**

**Disproportionality Indexes by Race and Ethnicity**  
**Repeal of Home Mortgage Interest Deduction**  
 Baseline: 2017 law, 2019 income and population



Expanded cash income percentile	Black	Hispanic	White	Other
Lowest quintile	0.7	1.5	1.0	0.5
Second quintile	0.6	1.0	1.1	0.9
Middle quintile	0.7	0.9	1.1	1.0
Fourth quintile	0.9	0.9	1.0	1.1
Top quintile	0.9	0.9	1.0	1.2
All	0.5	0.5	1.2	1.4
Addendum				
80-90	1.1	1.1	1.0	1.1
90-95	0.9	1.1	1.0	1.2
Top 5 percent	1.1	0.9	1.0	1.1

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0721-2).

**Notes:**

- (1) Calendar Year. Baseline is the law in place as of 2017. Provision would eliminate the Home Mortgage Interest Deduction.
- (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: Tax Policy Center. "Income Measure Used in Distributional Analyses by the Tax Policy Center." <http://www.taxpolicycenter.org/TaxModel/income.cfm>.
- (3) The income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The incomes used are adjusted for family size by dividing by the square root of the number of people in the tax unit. The resulting percentile breaks are (in 2020 dollars): 20% \$17,900; 40% \$35,100; 60% \$60,600; 80% \$101,900; 90% \$148,100; 95% \$207,500.
- (4) Includes tax units with a change in federal tax burden of \$10 or more in absolute value.
- (5) 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 tax; and excise taxes.
- (6) For income categories for which the baseline tax burden is negative, a positive percent change in average federal tax indicates a net increase in federal subsidies, and a negative percent change indicates a net decrease in federal subsidies.
- (7) 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.

HMID more than doubles among all race and ethnicity groups—from \$88 to \$199 for Black families, \$66 to \$192 for

Hispanic families, \$199 to \$477 for White families, and from \$236 to \$549 for other families. The shares of families deducting mortgage interest also increase by more than twice for each racial and ethnic group. Consequently, DIs remain roughly the same as under 2019 law, with several exceptions that may, in some cases, reflect small sample sizes (table 8).

Notably, the distributions of HMID benefits in the top income quintile changes under 2017 tax law. The indexes for Black families in each income group within the top quintile are lower without the TCJA than with it. Thus, Black families in the top income quintile do not receive a disproportionately large share of the benefits from the HMID under 2017 law.

## **IMPACT OF CHANGES IN THE STANDARD DEDUCTION AND THE SALT CAP**

As shown in the previous section, the expiration of the individual income tax provisions in TCJA will significantly increase the numbers of taxpayers who choose to itemize but generally will not change the relative burden between racial and ethnic groups. In this section, we examine the effects of two provisions in TCJA that could produce that finding—the increase in the standard deduction and the elimination of the SALT cap.

To that end, we conducted two sensitivity tests. First, we assume that TCJA is extended but the 2017 standard deduction amount (adjusted for inflation) is retained. Second, we also assume the extension of TCJA but without any cap on the SALT deduction. (The standard deduction, in the second exercise, is set at the TCJA level.) If most of the distributional changes from the TCJA are due to a specific policy (raising the standard deduction or imposing a SALT cap), then a distribution of HMID benefits without that policy will be similar to the one that holds without the TCJA. If little of the changes are due to that policy, then the distribution of HMID benefits will be similar to the TCJA's.

First, we reproduce table 3 (2019 law) but with the lower standard deduction (table 9). We find that the shares of tax units facing a tax increase under repeal of HMID are very similar to those of table 7 (2017 law). That finding indicates that the lower standard deduction is the primary reason for the increased use of HMID without the TCJA individual provisions. Although there were differences between tables 7 and 9 in the average tax change among those with a tax increase, all races and ethnicity are affected evenly. This is visible in the DIs in table 10, which closely resemble those in table 8.



**TABLE 9**  
**Repeal of Home Mortgage Interest Deduction and Restoration of 2017 Standard Deduction**  
 All filing units  
 Baseline: 2019 law

Expanded cash income percentile	Tax units with tax increase or cut							Average federal tax rate		
	With tax cut			With tax increase				Share of total federal tax change	Average federal tax change (\$)	Change (% points)
Pct of tax units	Avg tax change (\$)	Pct of tax units	Avg tax change (\$)	Percent change in after-tax income	Share of total federal tax change	Average federal tax change (\$)	Change (% points)			
Lowest quintile	0	0	0.6	260	0.0	0.1	-	0.0	3.6	
Second quintile	0	0	4.0	380	0.0	1.0	20	0.0	8.9	
Middle quintile	0	0	14.8	740	-0.2	6.7	110	0.2	14.5	
Fourth quintile	0	0	34.0	1,160	-0.4	20.0	390	0.3	18.1	
Top quintile	0	0	65.6	2,620	-0.6	72.2	1,720	0.5	24.7	
All	0	0	18.9	1,760	-0.4	100.0	330	0.3	19.8	
Addendum										
80-90	0	0	59.9	1,680	-0.6	21.6	1,000	0.5	20.8	
90-95	0	0	70.2	2,320	-0.7	17.1	1,630	0.6	22.8	
Top 5 percent	0	0	73.1	4,600	-0.5	33.6	3,360	0.4	27.2	

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0721-2).

**Notes:**

- (1) Calendar Year. Baseline is the law currently in place as of 2019. Provision would eliminate the Home Mortgage Interest Deduction under 2019 law and the 2017 standard deduction.
- (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: Tax Policy Center. "Income Measure Used in Distributional Analyses by the Tax Policy Center." <http://www.taxpolicycenter.org/TaxModel/income.cfm>.
- (3) The income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The incomes used are adjusted for family size by dividing by the square root of the number of people in the tax unit. The resulting percentile breaks are (in 2020 dollars): 20% \$17,900; 40% \$35,100; 60% \$60,600; 80% \$101,900; 90% \$148,100; 95% \$207,500.
- (4) Includes tax units with a change in federal tax burden of \$10 or more in absolute value.
- (5) 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 tax; and excise taxes.
- (6) For income categories for which the baseline tax burden is negative, a positive percent change in average federal tax indicates a net increase in federal subsidies, and a negative percent change indicates a net decrease in federal subsidies.
- (7) 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.

Next, we estimate TCJA, but without a SALT cap. Here, we find that the SALT cap had its largest effect on those in the 90th percentile of income and above (table 11). The share of tax units with a tax increase in the first four income quintiles is nearly identical to those under TCJA law (table 3), demonstrating that the SALT cap had very little effect on their use of HMID for that population. But 47 percent of those in the 90th to 95th percentile, however, see a tax increase, as opposed to 32 percent under 2019 law and 73 percent under 2017 law. Of those in the top 5 percent, 66 percent experience a tax increase without the HMID, while 51 percent would face an increase under 2019 law and 74 percent under 2017 law.

**TABLE 10**

Disproportionality Indexes by Race and Ethnicity  
 Repeal of Home Mortgage Interest Deduction and  
 Restoration of 2017 Standard Deduction



Baseline: 2019 law

Expanded cash income percentile	Black	Hispanic	White	Other
Lowest quintile	1.1	1.4	0.9	0.8
Second quintile	0.9	1.2	1.0	1.0
Middle quintile	0.9	1.0	1.0	1.1
Fourth quintile	1.0	1.0	1.0	1.2
Top quintile	1.0	1.0	1.0	1.1
All	0.9	0.8	1.0	1.2
Addendum				
80-90	1.0	1.1	1.0	1.1
90-95	1.0	1.1	1.0	1.2
Top 5 percent	1.1	1.0	1.0	1.1

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0721-2).

**Notes:**

- (1) Calendar Year. Baseline is the law currently in place as of 2019. Provision would eliminate the Home Mortgage Interest Deduction among those receiving a tax increase.
- (2) Provision would eliminate the home mortgage interest deduction and restore the 2017 standard deduction.
- (3) The income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The incomes used are adjusted for family size by dividing by the square root of the number of people in the tax unit. The resulting percentile breaks are (in 2020 dollars): 20% \$17,900; 40% \$35,100; 60% \$60,600; 80% \$101,900; 90% \$148,100; 95% \$207,500.
- (4) Includes tax units with a change in federal tax burden of \$10 or more in absolute value.
- (5) 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 tax; and excise taxes.
- (6) For income categories for which the baseline tax burden is negative, a positive percent change in average federal tax indicates a net increase in federal subsidies, and a negative percent change indicates a net decrease in federal subsidies.
- (7) 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 11**  
**Repeal of Home Mortgage Interest Deduction and Remove \$10,000 Cap on Deduction of State and Local Taxes**  
 All filing units  
 Baseline: 2019 law

Expanded cash income percentile	Tax units with tax increase or cut						Average federal tax rate			
	With tax cut			With tax increase			Share of total federal tax change	Average federal tax change (\$)	Change (% points)	Under the proposal
	Pct of tax units	Avg tax change (\$)	Pct of tax units	Avg tax change (\$)	Percent change in after-tax income	Percent change				
Lowest Quintile	0	0	0.1	250	0.0	0.0	-	0.0	2.9	
Second Quintile	0	0	1.1	370	0.0	0.4	-	0.0	7.7	
Middle Quintile	0	0	5.0	780	-0.1	3.7	40	0.1	13.2	
Fourth Quintile	0	0	14.0	1,280	-0.2	13.9	180	0.1	16.9	
Top Quintile	0	0	41.9	3,050	-0.4	82.0	1,280	0.3	23.6	
All	0	0	9.5	2,290	-0.3	100.0	220	0.2	18.7	
Addendum										
80-90	0	0	27.9	1,790	-0.3	16.4	500	0.3	19.7	
90-95	0	0	47.3	2,410	-0.5	18.3	1,140	0.4	21.9	
Top 5 Percent	0	0	66.2	4,670	-0.5	47.2	3,090	0.4	26.0	

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0721-2).

**Notes:**

- (1) Revise the second sentence: Provision would eliminate the home mortgage interest deduction and remove the \$10,000 cap on the itemized deduction of state and local taxes (SALT).
- (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: Tax Policy Center. "Income Measure Used in Distributional Analyses by the Tax Policy Center." <http://www.taxpolicycenter.org/TaxModel/income.cfm>.
- (3) The income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The incomes used are adjusted for family size by dividing by the square root of the number of people in the tax unit. The resulting percentile breaks are (in 2020 dollars): 20% \$17,900; 40% \$35,100; 60% \$60,600; 80% \$101,900; 90% \$148,100; 95% \$207,500.
- (4) Includes tax units with a change in federal tax burden of \$10 or more in absolute value.
- (5) 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 tax; and excise taxes.
- (6) For income categories for which the baseline tax burden is negative, a positive percent change in average federal tax indicates a net increase in federal subsidies, and a negative percent change indicates a net decrease in federal subsidies.
- (7) 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.

## CONCLUSION

To benefit from the HMID, taxpayers must meet certain conditions. First and foremost, they must own a home and have a mortgage. Second, they must have sufficient deductible expenses to make it worthwhile to itemize rather than claim the much simpler standard deduction. If those two conditions are met, the tax value of their HMID will increase the higher their tax rate bracket and the amount of interest they pay.

Generally, White families are more likely than Black and Hispanic families to meet the first two conditions and thus claim the deduction. And among those who claim the deduction, they will, on average, receive a larger benefit because of the latter two conditions. Those findings reflect the long-standing discrimination Black and Hispanic families have faced in the housing market and lending industry.

A surprising finding, first observed in previous research by Treasury economists (Cronin et al. 2023) and Holtzblatt and colleagues (2023), shows that the reverse is true among very high-income families: High-income Black homeowners receive a disproportionately higher benefit from the HMID than White families.<sup>8</sup> But that finding may reflect another result of historic discrimination in the United States: Black families are less likely to be able to rely on inheritances or gifts from relatives to finance their home purchases because there have been fewer opportunities for Black families to accumulate assets that could be passed on to the next generations. Thus, high-income Black homeowners may have to rely more on mortgages than their White counterparts.

Assuming no other changes to the tax code, the scheduled expiration of TCJA and return to 2017 law will make itemizing more attractive to many taxpayers. The lower standard deduction and the removal of the SALT cap will increase the incentive to itemize, while the higher tax rates will raise the tax value of the HMID for higher-income families. We find that the expiration of TCJA will more than double the number of families claiming the HMID while increasing the average tax benefit by a small amount. The reduction in the standard deduction amount—which affects the decision to deduct rather than the amount—appears to be the primary reason for that finding.

The restoration of 2017 law will also narrow the racial gaps in the tax value of the HMID at the top of the income distribution but have a much smaller effect on other families. Notably, 2017 law reverses the relationship between Black and White families at the top of the income distribution: Black families will receive a disproportionately smaller amount of the tax value of the HMID, though the gap is narrower than between Black and White families under 2019 law.

Although we have focused on the expiration of TCJA, other legislative proposals could affect the distribution of tax subsidies for homeownership if they became law. For example, President Joe Biden included two tax credits for homeowners in his FY 2025 budget plan—one for first-time homebuyers and another for sellers. Both benefit taxpayers, regardless of race and ethnicity, but the credit for first-time homebuyers may help Black and Hispanic families overcome the initial hurdle to homeownership by providing assistance when purchasing a home. The risk, though, is that home prices may rise if the credit stimulates demand. A seller's credit, on the other hand, may disproportionately benefit White families who currently are much likelier to own a home than Black and Hispanic families.

Our study contributes to an emerging literature that demonstrates ways in which the tax code reinforces racial and ethnicity disparities in the United States. Further, it also highlights the sensitivity of those inequities to changes in the tax code.



## DISTRIBUTION OF THE HOME MORTGAGE INTEREST DEDUCTION BY AGE AND RACE

In this appendix, we consider the distribution by age, rather than by income, of the benefits of the home mortgage interest deduction (HMID).

The peak years for having a home mortgage in 2019 were from age 35 through 64, regardless of race or ethnicity (Table A.1). In all age groups, White families were more likely to be mortgage holders than the families in other groups. In every age group, mortgages were least prevalent among Black families, but the gaps narrowed substantially by age 65.

**TABLE A.1**

Shares of Families with  
Mortgages, by Age, Race, and  
Ethnicity

Baseline: 2019 law



	Black	Hispanic	White	Other
Younger than 35	13.3	25.8	38.2	24.7
35 - 64	34.5	37.7	58.1	47.3
65 and older	26.2	25.8	35.3	29.6
All ages	27.7	32.3	47.4	38.1

**Source:** Author's calculations using data from the 2019 Survey of Consumer Finances.

Across all age groups, White families received a disproportionately large benefit from the HMID relative to Black and Hispanic families (Table A.2). Families in the other category were omitted because of small samples in some age categories. The gap in the disproportionality indexes (DI) between Black and White families narrowed substantially in the 65 and over cohort, reflecting the increasing shares of Black and Hispanic families using the HMID. Among those taking the deduction, the DIs are more similar within an age group than among all families.

TABLE A.2

## Repeal of Home Mortgage Interest Deduction by Age, Race, and Ethnicity

Baseline: 2019 law



	Disproportionality Indexes		
	Black	Hispanic	White
Younger than 35	0.5	0.4	1.3
35 to 65	0.5	0.4	1.2
Older than 65	0.5	0.5	1.1
	Share of Families with Tax increases		
	Black	Hispanic	White
Younger than 35	2.0	1.9	5.7
35 to 65	7.1	5.5	14.1
Older than 65	3.0	2.7	4.7
	Disproportionality Indexes Among Homeowners Using the Deduction, Current Law		
	Black	Hispanic	White
Younger than 35	1.0	0.8	1.0
35 to 65	0.9	0.8	1.0
Older than 65	0.7	0.8	1.0

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0721-2).

**Notes:**

(1) Calendar Year. Baseline is the law currently in place as of 2019. Provision would eliminate the Home Mortgage Interest Deduction.

(2) Includes both filing and non-filing units but excludes those that are dependents of other tax units.

- <sup>1</sup> Linna Zhu, Jun Zhu, and Laurie Goodman. “Asian Americans face systemic higher mortgage denial rates despite having stronger credit profiles,” *Urban Wire* (blog), Urban Institute, November 1, 2021, <https://www.urban.org/urban-wire/asian-americans-face-systemic-higher-mortgage-denial-rates-despite-having-stronger-credit-profiles>.
- <sup>2</sup> See “Do Existing Tax Incentives Increase Homeownership?” Tax Policy Center Briefing Book, Tax Policy Center, last updated May 2020, <https://www.taxpolicycenter.org/briefing-book/do-existing-tax-incentives-increase-homeownership>.
- <sup>3</sup> For more information, see “Brief Description of the Tax Model,” Tax Policy Center, last updated March 9, 2022, <https://www.taxpolicycenter.org/resources/brief-description-tax-model>.
- <sup>4</sup> TPC’s distribution tables do allow for what tax economists refer to as “tax-form behavior.” For example, TCJA repealed certain itemized deductions and increased the standard deduction. This caused some taxpayers who were itemizing under prior law to take the standard deduction instead. We include the impact of such a switch in our distributional analysis.
- <sup>5</sup> TPC classifies tax units by an income concept we call “expanded cash income” for the purpose of distributional analysis. Expanded cash income was constructed to be a broad measure of pretax income, and we use it both to rank tax units in our distribution tables and to calculate effective tax rates. Expanded cash income is adjusted gross income plus above-the-line adjustments (e.g., individual retirement account deductions, student loan interest, self-employed health insurance deduction), employer-paid health insurance and other nontaxable fringe benefits, employee and employer contributions to tax-deferred retirement savings plans, tax-exempt interest, nontaxable Social Security benefits, nontaxable pension and retirement income, accruals within defined benefit pension plans, inside buildup within defined contribution retirement accounts, cash and cash-like transfer income (e.g., Supplemental Nutrition Assistance Program benefits), employer’s share of payroll taxes, and imputed corporate income tax liability.
- <sup>6</sup> See Holtzblatt and colleagues (2023) for more information.
- <sup>7</sup> Although we do not include the full distribution tables by race, the average tax change for families in each income and race group can be calculated using tables 1, 2, and 3. For example, an average tax change of \$400 for overall taxpayers and a DI of 0.5 for overall black families implies that the average tax change for black families was \$200.
- <sup>8</sup> Our estimates of the benefits of the HMID across families of different races are similar to those in Cronin, DeFillipes and Fisher (2023), even though TPC and the Treasury Department use different measures of income to create income groups and examine different years. Both find that benefits rise with income and that for the 80th to 90th percentiles and 90th to 95th percentiles Black families more frequently use the HMID and have higher average deductions. For families in the top 5 percent of the income distribution they find that Black families less frequently use the deduction and have smaller average amounts than White families. However, the confidence intervals are so wide that they cannot preclude the possibility that Black families in fact more frequently use the deduction and have larger average deductions, as we found in this study.

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## ABOUT THE AUTHORS

**Janet Holtzblatt** is a senior fellow at the Urban-Brookings Tax Policy Center. Over a three-decade career in the federal government, she worked on a broad range of tax policy issues, with emphasis on the tax treatment of families and workers, health reform, the administration of the tax code, and tax simplification. Holtzblatt's research has focused on racial disparities in the tax system, the earned income tax credit, marriage penalties and bonuses in the income tax system, the administration of health reform through the tax system, labor market effects of health reform, and the impact of Internal Revenue Service resources on revenues. She has also directed studies on the tax treatment of multinationals, corporate tax rates, pass-through entities, marginal tax rates, and federal assistance for higher education. Holtzblatt has served on the board of directors for the National Tax Association. In 2017, she received the Referee of the Year Award from the National Tax Journal. She was the recipient of the 2020 Davie-Davis Public Service Award, which is bestowed annually by the National Tax Association. Before joining Urban, Holtzblatt was the unit chief for tax policy studies in the Tax Analysis Division of the Congressional Budget Office. Before that, she was deputy director of the Individual Taxation Division in the US Treasury Office of Tax Analysis and a senior analyst on the Senate Budget Committee. She earned her bachelor's degree in economics and history from the University of Illinois and a doctoral degree in economics from the University of Wisconsin.

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McClelland has published articles in journals such as the American Economic Review, Journal of Applied Econometrics, Journal of Public Economics, National Tax Journal, and Review of Income and Statistics. In 2015, he, Tim Dowd, and Athiphat Muthitacharoen won the Richard Musgrave Prize for the outstanding article in the National Tax Journal.

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