NATIONAL ASSOCIATION OF REALTORS®
Eye On The Hill

Protecting the Mortgage Interest Deduction

On February 1, President Obama released his budget proposal for 2011. Consistent with its proposed FY 2010 budget, the Administration's again has recommended limiting the value of the mortgage interest deduction (MID) for upper income taxpayers by, in effect, converting the deduction to a 28% tax credit for those individuals currently in the 33% or 35% tax brackets.

The mortgage interest deduction has been part of U.S. tax policy since the federal tax code was first enacted in 1913. It is a remarkably effective tool that facilitates homeownership. While only about 30% of all taxpayers in any given year itemize their deductions, more than 3/4 of homeowners utilize the deduction over the period they own their home. For this reason, NAR is 100% opposed to the provision that modifies the MID and prepared to use its formidable array of resources against its enactment.

Under current law, interest paid on up to $1 million of mortgage debt, plus interest paid on home equity loans or lines of credit of up to $100,000 may be deducted. These caps apply to the combined indebtedness on a principal residence and one additional residence. As currently drafted, the Administration’s proposal would change the MID by reducing the economic benefits of mortgage deductibility for families earning over $250,000 (AGI) and on single taxpayers earning over $200,000 (AGI).

In the past, most Members of Congress have supported our views and also opposed changes to the MID. Senator Max Baucus, Chairman of the Senate Committee on Finance, and Representative Charles Rangel, Chairman of the House Ways and Means Committee, along with their other colleagues, pointed out in 2009 that changes to itemized deductions were ill advised stating "some of the reforms and offsets contained or referenced in the budget, such as the limitation on itemized deductions, raise concerns and will require more study as we determine the best policies for getting America back on track."

Today's housing market, while improving, cannot absorb any negative signals, no matter what the income level of the taxpayer and no matter what market segment of housing might be affected. As we did in 2009, NAR will launch a multi-phase plan of action to eliminate this provision from the budget plan. NAR has already sent letters to Members of the House of Representatives and the Senate and will continue to protect the MID.