



Unmasking the Mortgage Interest Deduction: Who Benefits and How Much? Update 2012

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The Beneficiaries of the Mortgage Interest Deduction



The federal income tax code is riddled with loopholes, deductions and credits designed to promote various social goals and benefit assorted groups of Americans. One of the largest of these is the mortgage interest deduction (MID), which allowed taxpayers to claim benefits of \$82.7 billion in 2010, the latest data available. However, only 32.6 percent of income tax returns in 2010 had any itemized deductions, and 20.8 percent of those did not claim any mortgage interest. As a result, just 22.9 percent of tax filers used the MID in 2010. This has been a relatively stable historical trend, with between 21 and 26 percent of taxpayers claiming the MID each year since 1991. Given the number of recent proposals to change the MID in some way, it is helpful to review which households are claiming the mortgage interest deduction.

The MID is not the middle-class savior it is made out to be. Table 1 shows households making \$100,000 or more a year constitute 55 percent of those claiming the MID, and they receive 78 percent of the deduction's total benefits. The last two columns of Table 1 show the average tax savings that households in each income group receive from the MID, and what those savings represent in monthly savings. For example, the MID saves middle-class households making between \$40,000 and \$75,000 a year around \$80 a month.

Table 1: Who Benefits from the MID and by How Much?
(Distribution by Income of Mortgage Interest Deduction, at 2010 Rates and 2010 Income Levels)

Income	Total Tax Returns Claiming MID	Percent of MID Claims	Marginal Tax Rate	Total Tax Savings from MID (millions)	Percent of Total Tax Savings	Average Tax Savings from MID	Average Monthly Tax Savings from MID
Below \$10,000	< 500	0.0%	10%	< \$500K	0.0%	\$ --	\$ --
\$10,000 to \$20,000	196,000	0.6%	10%	\$63	0.1%	\$321	\$27
\$20,000 to \$30,000	481,000	1.4%	10%	\$258	0.3%	\$536	\$45
\$30,000 to \$40,000	985,000	2.9%	10%	\$654	0.8%	\$664	\$55
\$40,000 to \$50,000	1,797,000	5.3%	15%	\$1,324	1.6%	\$737	\$61
\$50,000 to \$75,000	5,750,000	17.1%	15%	\$6,855	8.3%	\$1,192	\$99
\$75,000 to \$100,000	5,966,000	17.7%	25%	\$8,748	10.6%	\$1,466	\$122
\$100,000 to \$200,000	13,932,000	41.4%	25%	\$35,609	43.1%	\$2,556	\$213
\$200,000 and over	4,575,000	13.6%	28%	\$29,142	35.3%	\$6,370	\$531
Total	33,682,000	100%		\$82,653	100.0%	\$2,454	\$204

Source: Joint Committee on Taxation, Reason Foundation

At the very least, the mortgage interest deduction should be phased out and the savings applied to deficit reduction. A better solution, as we proposed in a full-length Reason Foundation study published last year, would be phasing out this deduction in its entirety and using the savings to give all taxpayers lower income tax rates. This is vastly preferable to giving a select few taxpayers an \$82.7 billion tax benefit at the expense of the rest of the country.

Read the original full version of this policy study at: <http://reason.org/studies/show/the-mortgage-interest-deduction>

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