



The Mortgage Interest Deduction: Options for Reform

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Key Takeaways

1

The mortgage interest deduction (MID) delivers large, regressive tax savings to homeowners at substantial fiscal cost, with little impact on homeownership.

2

Disallowing the MID for second homes would raise between \$43 billion and \$108 billion over a decade, depending on what happens with extension of the Tax Cuts and Jobs Act (TCJA). More restrictive reforms, like capping the MID at \$10K, would raise larger amounts of revenue.

3

The generosity of the MID depends on how other itemized deductions are designed. We show that increasing the SALT deduction limitation from \$10,000 to \$40,000 would almost double the tax code's subsidy for mortgage interest.

Introduction

The mortgage interest deduction (MID) is one of the largest federal tax subsidies for housing, but its benefits are unevenly distributed. Most of the deduction's value accrues to higher-income households who can afford to buy a home independent of tax policy, and evidence suggests it does little to promote homeownership in the aggregate. The MID is costly from a budgetary perspective: the Joint Committee on Taxation (JCT) estimates the MID lowers revenues by about \$25 billion in recent years. This cost will exceed \$100 billion annually in the coming years if the Tax Cuts and Jobs Act (TCJA) expires at the end of 2025, because the TCJA temporarily limited the benefits of the MID.

This report evaluates four reform options ranging from modest to comprehensive: limiting the deduction to primary residences only, capping deductible interest at \$20,000 or \$10,000 annually, and full repeal. We present revenue estimates under both current law and potential TCJA extension scenarios to inform policymakers

considering these options in different legislative contexts. Additionally, we examine how reforms to the state and local tax (SALT) deduction would interact with MID policy, demonstrating that seemingly unrelated tax provisions can significantly amplify or diminish the mortgage interest subsidy.

Background

The mortgage interest deduction has transformed dramatically since its origins over a century ago. Initially, it was not designed as a homeownership incentive but emerged from a broader business-oriented tax policy. Because most businesses were family-owned, business's cash flows were often intertwined with that of the household, so allowing a deduction for all interest paid was a simple way to define net income for purposes of taxation across different types of taxpayers.

Until the 1986 Tax Reform Act, individuals could deduct interest payments on virtually any type of debt, including car loans, credit cards, and mortgages. This comprehensive interest deduction was part of the tax code's general treatment of borrowing costs rather than a targeted housing policy. But the 1986 reform fundamentally restructured these provisions, eliminating deductions for interest on consumer debt like credit cards and car loans while preserving the mortgage interest deduction. This converted the tax code's broad-based interest deduction, which does not favor any specific activity among debt-financed spending, to a narrow tax subsidy that applies specifically to certain taxpayers, creating [horizontal inequities](#) within the tax code.

The 2017 Tax Cuts and Jobs Act (TCJA) introduced the most significant changes to the MID since 1986. The legislation reduced the home acquisition debt limit from \$1 million to \$750,000 for mortgages originated after December 15, 2017, and eliminated the deduction for home equity loan interest entirely. However, like most individual tax provisions in the TCJA, these changes are temporary and will expire at the end of 2025, reverting to pre-2017 limits.

The TCJA's impact on MID utilization was profound, though largely indirect. By nearly doubling the standard deduction and placing restrictions on other itemized deductions, the law dramatically reduced the number of taxpayers who itemize their returns—a prerequisite for claiming the mortgage interest deduction. Itemization rates dropped substantially after enactment, with corresponding decreases in MID claims. In 2017, 87% of mortgage interest paid was reported on tax returns, but this fell to just about 50% in 2018.¹ The number of returns claiming the MID declined by 59%, while the total amount claimed dropped by 40%. The estimated cost of the deduction, measured as forgone revenue, fell from \$66.4 billion in 2017 to \$33.7 billion in 2018.² Still, the MID ranks as one of the largest tax expenditures in the U.S. even after this reduction.

This reduction achieved one of the TCJA's stated goals—tax simplification—by moving millions of taxpayers from itemizing to taking the standard deduction. (The Budget Lab [estimates](#) that TCJA reduced the time burden of filing taxes by about 10 percent). However, the TCJA also had the effect of concentrating the remaining MID benefits among higher-income households, as they are more likely to have mortgage balances and other deductions large enough to make itemizing worthwhile. Returns with less than \$200,000 in Adjusted Gross Income (AGI) accounted for almost 92% of the decline in the number of returns with MID and 93% of the drop in amount claimed from 2017 to 2018.

According to a Joint Committee on Taxation (JCT) report, in 2024, taxpayers who earned more than \$200,000 in AGI represented 49% of all mortgage interest deduction claimants but captured a disproportionate 71% of the total tax expenditure benefit.³ This concentration occurs because higher-income homeowners typically have

larger mortgage balances, face higher marginal tax rates that amplify the value of deductions, and are more likely to itemize their returns.

Currently, a common justification for the MID is that it encourages homeownership by reducing the after-tax cost of borrowing to purchase a home. Proponents argue that widespread homeownership creates more stable communities, builds household wealth, and provides families with housing security.

But research on the MID has largely not supported the homeownership justification. Studies consistently find that the mortgage interest deduction does little to actually increase homeownership rates because it fails to address the main barriers to homeownership—down payments and closing costs. Instead, the deduction primarily benefits those who would buy homes anyway, potentially inflating home prices as the tax benefit gets capitalized into property values.⁴

Options for Reform

In this section, we estimate the revenue potential of reform options limiting the tax benefit of the MID. We organize reforms from least to most restrictive:

1. Limitation to primary residences only
2. \$20,000 limitation on total interest deductible
3. \$10,000 limitation on total interest deductible
4. Full repeal

We begin with estimates against a standard current-law baseline, under which the individual provisions of the TCJA expired as scheduled. But because negotiations to extend TCJA's expiring provisions are ongoing at the time of this writing, and because the effects of MID reform options depend critically on what happens with those expiring provisions, we also examine effects in the context of TCJA extension in another section below. Table 1 summarizes our estimates.

Table 1. Estimated Effects of Mortgage Interest Deduction Reform Options, Current-Law Baseline

Reform Option	Revenue Effect, FY2026-2035 (billions)	Change in the Number of Itemizers, 2026	Share of Tax Increase Falling on the Top 1% By Income, 2026	Share of Tax Increase Falling on Those Aged 65+, 2026
Limitation to Primary Residences Only	\$108	-450,000	25%	32%
\$20,000 Limitation on Total Interest Deductible	\$170	0	33%	28%
\$10,000 Limitation on Total Interest Deductible	\$521	-500,000	17%	24%
Full Repeal	\$1,179	-11,100,000	10%	23%

Source: The Budget Lab • Created with [Datawrapper](#)

Limitation to Primary Residences Only

Under current law, mortgage interest paid on second homes, like vacation homes, is generally deductible subject to overall limits. This option would disallow the MID for interest on second homes, limiting the MID to primary residences only.

Against current law, we estimate this provision would raise an additional \$108 billion over the 2026-2035 budget window. Half a million fewer returns would itemize deductions, representing about 1% of baseline itemizers. One quarter of the additional tax burden would fall on the top 1% of households by income. Compared with other reforms, this option would fall disproportionately on older taxpayers, a group for whom second mortgages make up a larger share of mortgage interest paid.

Limitations on Total Interest Deductible

As described above, mortgage interest is subject to certain limitations based on the mortgage balance (the *stock* of debt) under current law. This option would add an additional limitation instead based on the amount of interest paid (the *flow* associated with debt), much like the limitation on the state and local tax deduction established as part of the TCJA.

If the limit was set at \$20,000, ten-year revenue would rise by an estimated \$170 billion. This option would result in a negligible number of taxpayers changing itemizing status because \$20,000 in mortgage interest exceeds the current-law standard deduction. One third of the total new tax burden would accrue to those in the top 1% by income.

If the limit was instead set at a lower value of \$10,000, the ten-year revenue estimate rises to \$521 billion and a similarly small number of itemizers would move into taking the standard deduction. Compared with the \$20,000 option, the impacts are more evenly distributed across income groups.

Full Repeal

The final option would eliminate the mortgage interest deduction altogether. This option would raise close to \$1.2 trillion relative to current law over the 2026-2035 budget window and cause about 11 million current-law itemizers to instead take the standard deduction, representing more than one fifth of projected itemizers. Of all the reform options, this option would result in the least-concentrated tax increase among high-income households.

Interactions with the TCJA Expiration and the OBBBA

TCJA Extension

As described above, the budgetary and distributional impacts of the mortgage interest deduction depend on the broader tax code—namely how other itemized deductions are structured and how large the standard deduction is. This means that the estimates presented above apply only to the current-law scenario where all of TCJA's expiring provisions indeed expire as scheduled at the end of this year. The Budget Lab, like official government scorekeepers, uses a current law baseline when evaluating budget proposals.⁵

But if Congress extends those provisions, the impact of any changes to the mortgage interest deduction would be different. The House of Representatives has passed legislation, the One Big Beautiful Bill Act ("OBBBA"), that would extend the TCJA's expiring individual tax provisions; the Senate is now considering a version of this legislation.

For that reason, we also present estimates of our MID reform options evaluated in the context of TCJA extension, shown in Table 2. Because the TCJA already limits the mortgage interest deduction directly and indirectly, reform options raise less revenue in this context. The distributional impact is generally more progressive, since a more narrow, higher-income subset of filers deduct mortgage interest under the TCJA relative to the current law pre-TCJA tax code for 2026.

Table 2. Estimated Effects of Mortgage Interest Deduction Reform Options, Relative to TCJA Extension

Reform Option	Revenue Effect, FY2026-2035 (billions)	Change in the Number of Itemizers, 2026	Share of Tax Increase Falling on the Top 1% By Income, 2026	Share of Tax Increase Falling on Those Aged 65+, 2026
Limitation to Primary Residences Only	\$43	-1,000,000	38%	32%
\$20,000 Limitation on Total Interest Deductible	\$76	-560,000	38%	31%
\$10,000 Limitation on Total Interest Deductible	\$188	-4,300,000	25%	26%
Full Repeal	\$323	-12,400,000	20%	25%

Source: The Budget Lab • Created with [Datawrapper](#)

SALT Deduction

The deduction for state and local taxes (“SALT”) is a key provision being discussed in budget reconciliation negotiations. Prior to 2018, SALT was generally fully deductible as an itemized deduction, but the TCJA introduced a new \$10,000 limit. This limit is scheduled to expire at the end of 2025. In the house-passed OBBBA, the SALT limit is raised to \$40,000 starting in 2025 and grows at 1 percent over the next decade. [Reports indicate](#) that the Senate version of the OBBBA may include a SALT deduction limit below \$40,000.

Because SALT and mortgage interest are both itemized deductions, changes in the deductibility of one affect the deductibility of the other. Therefore, an increase in the SALT deduction limit—as is being proposed in actively negotiated legislation—will increase the generosity of tax code’s subsidy for mortgage interest. The logic of this “interaction” works like this:

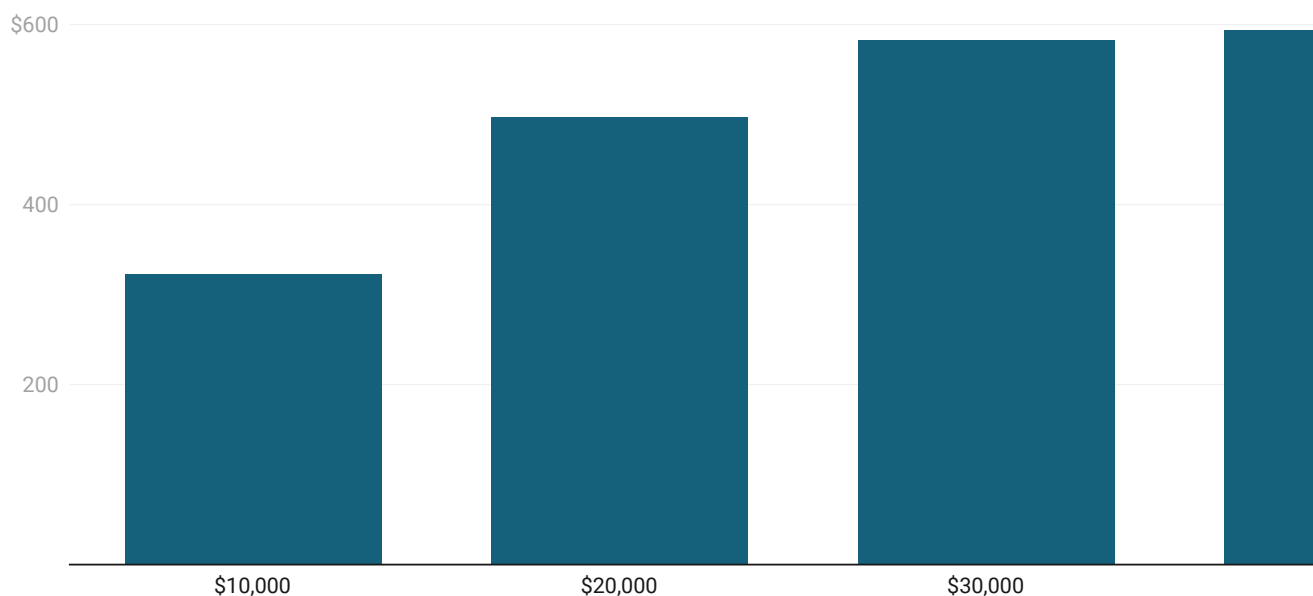
1. Raising the SALT deduction limit means more taxpayers will itemize their deductions (rather than take the standard deduction).
2. Some of these new itemizers will now be able to deduct mortgage interest.
3. Therefore, the tax subsidy for home borrowing will expand.

In other words, SALT policy plays an indirect but meaningful role in determining housing subsidy policy.

We estimate the size of this interaction effect by measuring the tax expenditure for mortgage interest (that is, forgone revenue due to the MID) under four different scenarios for SALT deduction limit: \$10,000, \$20,000, \$30,000, and \$40,000. These scenarios assume that all expiring individual tax provisions of the TCJA are extended permanently. Figure 1 shows the results below.

Figure 1. Estimated Revenue Cost of the Mortgage Interest Deduction By Salt Deduction Limitation, FY2026-2035

Billions of dollars



Assumes TCJA Extension

Source: The Budget Lab • Created with [Datawrapper](#)

If the SALT limit is maintained at \$10,000 (and, again, assuming the expiring provisions of the TCJA extended), we project the MID tax expenditure will be \$323 billion over the next decade. If the limit is instead raised to \$20,000, the budget cost of the MID rises by \$497 billion for the same reasons outlined above: a higher SALT cap means more itemizers and thus more mortgage interest deducted.

Moving to an even higher SALT deduction limit, however, yields diminishing marginal returns. The ten-year MID tax expenditure is an estimated \$583 billion under a \$30,000 limit and \$594 billion under a \$40,000 limit. The idea is that once the SALT deduction limit reaches a high-enough level, there are relatively few taxpayers who do not itemize due to SALT deductibility rules. Therefore, further increasing the SALT deduction limitation does little to increase the number of itemizers and thus barely moves the aggregate revenue cost of the MID.

Footnotes

1. Calculated by dividing mortgage interest deducted on Schedule A (from IRS SOI Table 2.1) by total mortgage interest paid by households for owner-occupied housing (from BEA NIPA Table 7.11).
2. See <https://www.jct.gov/publications/2018/jcx-81-18/> and <https://www.jct.gov/publications/2018/jcx-34-18/>
3. JCT report: <https://www.jct.gov/publications/2024/jcx-48-24/>. See also Eastman, Scott and Anna Tyger. "The Home Mortgage Interest Deduction," 2019 Tax Foundation <https://taxfoundation.org/research/all/federal/home-mortgage-interest-deduction/> for a full discussion.
4. See Hilber, Christian A. L., and Tracy M. Turner. "The Mortgage Interest Deduction and its Impact on Homeownership Decisions." *The Review of Economics and Statistics*, vol. 96, no. 4, 2014, pp. 618–37, Glaeser, Edward L. and Jesse M. Shapiro. "The Benefits of the Home Mortgage Interest Deduction." *Tax Policy and the Economy* 2003 17:, 37-82, and Gruber, Jonathan, Amalie Jensen, and Henrik Kleven. 2021. "Do People Respond to the Mortgage Interest Deduction? Quasi-experimental Evidence from Denmark." *American Economic Journal: Economic Policy* 13 (2): 273–303. For research on the negative effects of TCJA on homeownership, see Hembre, Erik and Raissa Dantas, "Tax incentives and housing decisions: Effects of the Tax Cut and Jobs Act", *Regional Science and Urban Economics*, Volume 95, 2022, 103800.
5. The current tax debate involves discussions of current law versus current policy baseline. We understand there is movement to force the Congressional Budget Office (CBO) and JCT to use a current policy baseline in their scoring of the OBBBA.