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UPDATED OPTIONS TO REFORM THE DEDUCTION FOR HOME MORTGAGE INTEREST

Amanda Eng
Urban-Brookings Tax Policy Center
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Under current law, taxpayers may deduct interest paid on up to $1 million of acquisition debt used to buy, build, or improve a primary or secondary residence. Taxpayers can also deduct interest paid on up to $100,000 in home equity loans or other loans secured by their homes. This report analyzes four options to replace the current mortgage interest deduction with credits that are designed to improve incentives for homeownership. These options include a nonrefundable credit of up to 15 percent of eligible mortgage interest, a nonrefundable credit of up to 20 percent of eligible mortgage interest, a refundable credit of a fixed percentage of property taxes paid, and a flat amount refundable credit for all homeowners. The first two options would limit eligible interest to the amount paid on up to $500,000 of an eligible mortgage. The report also considers options that phase out the mortgage interest deduction and phase in the new credits over five years.

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UPDATED OPTIONS TO REFORM THE DEDUCTION FOR HOME MORTGAGE INTEREST

The Tax Policy Center (TPC) has updated revenue and distributional estimates for four options that would replace the current itemized deduction for home mortgage interest. Taxpayers are currently allowed to claim an itemized deduction for mortgage interest paid on up to $1 million of debt used to buy, build, or improve a primary or secondary residence. Taxpayers may also claim a deduction for the interest paid on up to $100,000 in home equity loans or other lines of credit secured by their homes. The $1 million and $100,000 limits are not indexed for inflation.

The reform options analyzed in this report would all repeal the mortgage interest deduction and replace it with alternative credits that are designed to improve incentives for homeownership. The first two options are described in "Options to Reform the Deduction for Home Mortgage Interest" (Eng, et al. 2013). The third and fourth options are based on reforms proposed in "New Perspectives on Homeownership Tax Incentives" (Harris, Steuerle, Eng 2013). As was done in "Options to Reform the Deduction for Home Mortgage Interest," we estimate the effects of each option with immediate enactment and with a five-year phase-in schedule. Revenue effects are estimated for fiscal years 2015 to 2024, and distributional effects are estimated for calendar year 2015 on a fully phased-in basis. All of the estimates are relative to the current law baseline.[1]

Description of Proposals

Options One and Two

Both of these options would replace the mortgage interest deduction with a nonrefundable credit equal to a fixed percentage of mortgage interest paid on up to $500,000 of debt on a primary residence, second home, or home equity line of credit. The first option would set the credit rate at 15 percent of eligible mortgage interest while the second option would set the credit rate at 20 percent. Similar to current law, the $500,000 limit on eligible debt would not be indexed for inflation.

In the phased-in versions of these options, the cap on the amount of debt eligible for the mortgage subsidy would be lowered by equal increments over five years. In 2015, the limit would be $900,000, and in each subsequent year the limit would decrease by $100,000 until reaching $500,000 in 2019. The mortgage interest deduction would also be phased down by equal increments over five years. Taxpayers would be allowed to deduct 80 percent of eligible mortgage interest in 2015, with this deductible share decreasing by an additional 20 percentage points each year through 2019, when the deduction would be completely disallowed. Finally, the mortgage interest credits would phase in ratably: in 2015 taxpayers could claim a nonrefundable credit of 3 percent of mortgage interest under the first option (4 percent under the second option),

[1] For more information on TPC's baseline definitions, see http://taxpolicycenter.org/taxtopics/Baseline-Definitions.cfm.

and the credit rate would increase by 3 percentage points (4 percentage points) each year until reaching the full credit rate of 15 percent (20 percent) in 2019.

Option Three

The third option would repeal both the mortgage interest deduction and the itemized deduction for property taxes paid, replacing them with a refundable credit valued at a fixed percentage of property taxes paid, up to a maximum credit of $1,400 for single taxpayers and $2,100 for married taxpayers filing jointly. These limits would be indexed for inflation after 2015.

For this option, we calculated the credit rates that would raise $300 billion between fiscal years 2015 and 2024 with immediate implementation and also with a five-year phase-in period. Under the immediate option, taxpayers could claim a refundable credit of 56 percent of property taxes paid up to a maximum credit of $1,400 ($2,100 for married filing jointly), effective January 1, 2015. For the phased in option, taxpayers in 2015 would be allowed a credit of 9.9 percent of property taxes paid up to $1,400 ($2,100), with the credit rate increasing by 9.9 percentage points per year until reaching 49.5 percent in 2019 and thereafter. The itemized deductions for mortgage interest and property taxes paid would phase down over the same five-year period. In 2015, taxpayers would be allowed to deduct 80 percent of eligible mortgage interest and property taxes, decreasing by 20 percentage points each year until the deductions were completely eliminated in 2019.

Option Four

The last option would replace the mortgage interest deduction with a refundable flat amount credit for all homeowners. As with the third option, we calculated the credit amount that would raise $300 billion between fiscal years 2015 and 2024 under immediate enactment and under a phased-in option. If the credit immediately replaced the mortgage interest deduction, this option would make all homeowners eligible for a refundable credit of $536 ($804 for married filing jointly) in 2015. This amount would be indexed for inflation after 2015, reaching $654 ($981) by 2024. In the phased-in version of this option, the mortgage interest deduction would be phased down by 20 percentage points each year as in the other options. The credit would be phased in concurrently: all homeowners would be eligible for a refundable credit equal to $111 ($166.50) in 2015, increasing by $111 ($116.50) each year until reaching $555 ($832.50) in 2019. After 2019, this amount would be indexed for inflation, reaching $622 ($933) by 2024.

Revenue Effects

The revenue effects of the four proposals, with immediate enactment and a five-year phase-in schedule, are shown in table 1. The revenue estimates are dynamic in that taxpayers are assumed to pay down some or all of their mortgage debt in response to a smaller tax preference for mortgage interest[2] and to respond to any changes in their statutory marginal tax rates in other ways that affect reported taxable income.

We estimate that replacing the mortgage interest deduction with a 15 percent nonrefundable credit for mortgage interest (Option One) would raise approximately $257 billion over 10 years under immediate enactment while replacing the deduction with a 20 percent credit (Option Two) would only raise about $26 billion. When Option One is phased in as described above, the estimated revenue gain over the 10-year period decreases to approximately $232 billion. In contrast, phasing in Option Two would raise relatively more revenue ($38 billion) than if the reform were enacted immediately. We estimate that with immediate enactment, the 20 percent credit would lose revenue for the first three years and would result in a net loss over the first five years. However, when the credit is phased in (and the deduction is phased out), the proposal increases revenue in all years. Thus, the phased-in option would raise more revenue over the 10-year window.

By construction, options three and four would raise $300 billion under immediate enactment and when they are phased in. The differences between the phased-in and immediate options can be seen in the calculated credit rate and credit amount. For Option Three the final credit rate must be lower when the credit is fully phased in (49.5 percent compared to 56 percent) since the credit raises less revenue during the phase-in period and thus, must raise more revenue in the out years. Similarly, the credit amount in Option Four must be lower when the credit is phased in over five years. Whereas the phased-in credit would reach $555 in 2019, the credit amount under immediate enactment would be $584 in 2019 as a result of adjusting the initial $536 credit for inflation after 2015.

Distributional Effects

Tables 2A through 5B present the distributional effects of the four options in calendar year 2015, assuming immediate implementation of the proposals. In the set of (A) tables, tax units are grouped by their level of expanded cash income.[3] The (B) tables group tax units by percentiles of expanded cash income. All of the options are progressive reforms in that they shift tax burdens from lower to higher income taxpayers, but they vary in terms of the income at which the average taxpayer switches from being a net winner to being a net loser.

The 15 percent credit is the least progressive of the options (tables 2A and 2B). The proposal would decrease taxes for 17.7 percent of tax units with an average tax cut of $432 and increase tax burdens for 13.8 percent of tax units by an average of $1,631. Tax units with incomes between $40,000 and $75,000 benefit the most from the proposal, receiving a 0.2 percent

[2] In modeling these proposals we assume that taxpayers would use their taxable investment assets to pay off their mortgages if elimination of the mortgage interest deduction made the after-tax cost of holding a mortgage sufficiently higher than the after-tax returns on their investment assets. This adjustment is necessary because taxpayers presumably would not want to incur nondeductible debt in order to generate taxable investment income.

[3] For a description of expanded cash income, see http://www.taxpolicycenter.org/TaxModel/income.cfm.

increase in after-tax income. In contrast, tax units with incomes between $200,000 and $1 million have the largest percentage decrease in after-tax income as a result of the proposal, receiving a 0.8 percent decrease. Tax units in the highest income groups are slightly less adversely affected by this proposal since tax units with very high incomes are less likely to have mortgages and to benefit from the mortgage interest deduction under current law.

The distributional pattern for the 20 percent credit (tables 3A and 3B) is very similar to the pattern for the 15 percent credit. More tax units (21.7 percent) benefit from the 20 percent credit than the 15 percent credit, and most receive a larger tax cut, with the average tax cut increasing to $595. Similarly, Option Two only increases the tax burden of 11.9 percent of tax units. The average tax increase is slightly larger ($1,296), but this result is due to the fact that only tax units with relatively small tax increases under Option One switch from being net losers to net winners under Option Two. In general, the income groups that benefit and lose the most from the 20 percent credit are the same as those for the 15 percent credit. After-tax incomes increase on average by 0.3 percent for tax units with incomes between $40,000 and $100,000, and they fall by 0.7 percent for tax units with incomes between $500,000 and $1 million. Since both the 15 percent credit and the 20 percent credit are nonrefundable, tax units in the lowest income groups who often have little or no tax liability generally do not benefit from either of the proposals.

The property tax credit and flat amount credit for homeownership result in comparatively larger benefits for low-income tax units. This effect is likely driven by two factors: First, the credits are both refundable, so tax units with no tax liability can still benefit from them. Second, lower-income tax units are more likely to be homeowners and pay property taxes than they are to have a mortgage. In particular, elderly tax units tend to have lower incomes than younger, working age tax units and are more likely to own their homes outright. Thus, while many of these lower-income units would be unable to benefit from the mortgage credits, they would be able to benefit from the property tax and homeownership credits.

The property tax credit raises tax burdens overall by an average of $165, but this increase is mainly due to the higher taxes paid by high-income tax units (tables 4A and 4B). These tax units tend to pay more mortgage interest and property taxes and are therefore doubly affected by the loss of the mortgage interest deduction and the large decrease in the tax benefits of their property taxes. Overall, 36 percent of tax units receive a tax cut of an average of $606 while 14.8 percent of tax units see an average increase in tax burden of $2,589. Tax units with incomes of less than $10,000 benefit the most from this proposal, with an average percent change in after tax income of 0.8 percent. Tax units in the $500,000 to $1 million income range have the largest increase in tax burdens, with an average decrease in after-tax income of 1.2 percent.

Finally, the flat amount credit for homeownership is the most redistributive of the proposals (tables 5A and 5B). 36.8 percent of tax units get an average tax cut of $604, and 17.1 percent have an average tax increase of $2,322. Tax units with incomes below $10,000 benefit the most and have an average increase in after-tax income of 2.3 percent. In contrast, the proposal would decrease the after-tax income of tax units with incomes between $200,000 and $500,000 by an average of 1.2 percent.

References

Eng, Amanda, Harvey Galper, Georgia Ivsin, and Eric Toder. 2013. "Options to Reform the Deduction for Home Mortgage Interest." Urban-Brookings Tax Policy Center, Washington, DC.

Harris, Benjamin H, C. Eugene Steuerle, and Amanda Eng. 2013. "New Perspectives on Homeownership Tax Incentives." *Tax Notes*, Dec. 23, 2013, 1315-32.

Table 1
Options to Replace the Mortgage Interest Deduction (MID)
Baseline: Current Law
Impact on Tax Revenue (billions of current dollars), 2015-2024[1]

Proposal	Fiscal Year										Total
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2015-2024
Option 1: Replace MID with 15 Percent Nonrefundable Credit and Cap Eligible Amount of Debt at $500,000 (unindexed)[2]	11.0	17.2	20.7	23.6	26.0	28.0	29.8	31.9	33.9	34.9	257.1
Option 1a: Phase in Option 1 Over a 5 Year Period[3]	3.7	8.9	14.9	20.8	25.5	28.0	29.8	31.9	33.9	34.9	232.4
Option 2: Replace MID with 20 Percent Nonrefundable Credit and Cap Eligible Amount of Debt at $500,000 (unindexed)	-3.1	-2.5	-0.2	1.7	3.0	4.0	4.7	5.6	6.6	6.4	26.2
Option 2a: Phase in Option 2 Over a 5 Year Period[4]	0.5	1.2	2.3	3.3	3.4	4.0	4.7	5.6	6.6	6.4	38.0
Option 3: Replace MID and deduction for property taxes paid with refundable credit for 56% of property taxes paid up to a maximum of $1,400 ($2,100 for married filing jointly) (indexed after 2015)	9.2	16.5	22.0	26.6	30.2	33.3	36.1	39.2	42.4	44.6	300.0
Option 3a: Phase in Option 3 Over a 5 Year Period[5]	0.4	4.0	12.2	23.3	34.0	38.9	42.0	45.3	48.7	51.1	300.0
Option 4: Replace MID with a flat amount credit for homeownership of $536 ($804 for married taxpayers filing jointly) (indexed after 2015)	10.0	17.2	22.3	26.6	30.0	33.1	35.8	38.9	42.0	44.1	300.0
Option 4a: Phase in Option 4 Over a 5 Year Period[6]	3.5	9.7	17.2	25.4	32.4	36.4	39.3	42.5	45.7	47.9	300.0

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0613-3).

(1) Fiscal years. Estimates assume a 25-75 fiscal split; the actual effect on the timing of receipts could differ. Estimates assume a microdynamic behavioral response and assume that households would adjust their investment portfolio and optimally pay down their mortgage balance in response to a reduction in the tax benefit for mortgage interest. Revenue amounts reported are TPC estimates and may differ from official revenue estimates from the Joint Committee on Taxation. Proposals are effective 01/01/15.

(2) For all proposals, the cap on debt applies to the sum of mortgage origination debt on all residences plus home equity lines of credit.

(3) The cap on eligible debt would be $900,000 in 2015 and decline by $100,000 per year until reaching $500,000 for 2019 and thereafter. Taxpayers would be allowed to deduct 80 percent of eligible mortgage interest in 2015, decreasing by 20 percentage points per year until the MID would be completely eliminated in 2019 and thereafter. Taxpayers could claim a nonrefundable credit equal to 3 percent of eligible mortgage interest in 2015, increasing by 3 percentage points per year until hitting 15 percent in 2019 and thereafter.

(4) The cap on eligible debt would be $900,000 in 2015 and decline by $100,000 per year until reaching $500,000 for 2019 and thereafter. Taxpayers would be allowed to deduct 80 percent of eligible mortgage interest in 2015, decreasing by 20 percentage points per year until the MID would be completely eliminated in 2019 and thereafter. Taxpayers could claim a nonrefundable credit equal to 4 percent of eligible mortgage interest in 2015, increasing by 4 percentage points per year until hitting 20 percent in 2019 and thereafter.

(5) Taxpayers would be allowed to deduct 80 percent of eligible mortgage interest and property taxes paid in 2015, decreasing by 20 percentage points per year until the MID and deduction for property taxes paid would be completely eliminated in 2019 and thereafter. Taxpayers could claim a refundable credit equal to 9.9 percent of property taxes paid in 2015, increasing by 9.9 percentage points per year until hitting 49.5 percent in 2019 and thereafter.

(6) Taxpayers would be allowed to deduct 80 percent of eligible mortgage interest in 2015, decreasing by 20 percentage points per year until the MID would be completely eliminated in 2019 and thereafter. All homeowners would be allowed a refundable credit equal to $111 in 2015, increasing by $111 per year until hitting $555 in 2019. The $555 amount would be indexed for inflation after 2019.

Table 2A
Replace the Mortgage Interest Deduction With a 15 Percent Non-Refundable Credit on the First $500,000 of Debt
Baseline: Current Law
Distribution of Federal Tax Change by Expanded Cash Income Level, 2015 [1]
Summary Table

Expanded Cash Income Level (thousands of 2013 dollars) [2]	Tax Units with Tax Increase or Cut [3]				Percent Change in After-Tax Income [4]	Share of Total Federal Tax Change	Average Federal Tax Change ($)	Average Federal Tax Rate[5]	
	With Tax Cut		With Tax Increase						
	Pct of Tax Units	Avg Tax Cut	Pct of Tax Units	Avg Tax Increase				Change (% Points)	Under the Proposal
Less than 10	*	**	0.0	0	0.0	0.0	0	0.0	4.4
10-20	3.0	-145	0.0	0	0.0	-0.4	-4	0.0	2.4
20-30	8.3	-228	0.3	211	0.1	-1.5	-18	-0.1	4.8
30-40	17.5	-271	0.8	405	0.1	-2.9	-44	-0.1	7.8
40-50	24.6	-306	1.5	454	0.2	-3.7	-69	-0.2	10.2
50-75	31.8	-401	7.8	505	0.2	-9.0	-88	-0.1	13.6
75-100	33.5	-529	15.5	768	0.1	-3.8	-58	-0.1	15.9
100-200	24.9	-574	35.8	1,006	-0.2	25.7	217	0.2	18.5
200-500	3.4	-592	72.9	2,510	-0.8	65.0	1,810	0.6	23.3
500-1,000	0.6	-979	71.6	5,490	-0.8	17.3	3,924	0.6	29.0
More than 1,000	2.6	-1,242	58.4	8,849	-0.2	13.2	5,139	0.2	35.5
All	17.7	-432	13.8	1,631	-0.2	100.0	149	0.2	19.9
Addendum									
100-125	33.3	-613	18.7	901	0.0	-1.7	-36	0.0	17.1
125-150	25.6	-538	34.9	851	-0.1	5.6	159	0.1	18.5
150-175	14.6	-512	55.3	1,084	-0.4	12.1	524	0.3	19.5
175-200	10.6	-516	65.3	1,222	-0.5	9.7	742	0.4	20.3

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0613-3).

Number of AMT Taxpayers (millions). Baseline: 4.5 Proposal: 5.1

* Less than 0.05

** Insufficient data

(1) Baseline is current law. Proposal would replace the deduction for mortgage interest with a 15 percent non-refundable credit on the first $500,000 of debt on a primary residence, second home, and/or a home equity loan, effective January 1, 2015.
http://www.taxpolicycenter.org/taxtopics/Baseline-Definitions.cfm

(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
http://www.taxpolicycenter.org/TaxModel/income.cfm

(3) Includes tax units with a change in federal tax burden of $10 or more in absolute value.

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

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

Table 2B

Replace the Mortgage Interest Deduction With a 15 Percent Non-Refundable Credit on the First $500,000 of Debt

Baseline: Current Law

Distribution of Federal Tax Change by Expanded Cash Income Percentile, 2015 [1]

Summary Table

Expanded Cash Income Percentile[2,3]	Tax Units with Tax Increase or Cut [4]				Percent Change in After-Tax Income[5]	Share of Total Federal Tax Change	Average Federal Tax Change ($)	Average Federal Tax Rate[6]	
	With Tax Cut		With Tax Increase						
	Pct of Tax Units	Avg Tax Cut	Pct of Tax Units	Avg Tax Increase				Change (% Points)	Under the Proposal
Lowest Quintile	2.9	-177	*	**	0.0	-0.9	-5	0.0	3.1
Second Quintile	17.7	-278	0.9	417	0.1	-6.8	-46	-0.1	8.2
Middle Quintile	31.7	-413	8.5	558	0.2	-11.0	-83	-0.1	13.8
Fourth Quintile	32.7	-579	19.6	843	0.0	-2.6	-23	0.0	17.0
Top Quintile	10.2	-525	61.6	2,155	-0.5	121.3	1,275	0.4	26.1
All	17.7	-432	13.8	1,631	-0.2	100.0	149	0.2	19.9
Addendum									
80-90	16.7	-510	51.8	1,056	-0.4	21.9	462	0.3	19.4
90-95	6.3	-561	70.2	1,649	-0.6	26.6	1,122	0.5	21.4
95-99	1.1	-592	75.1	3,483	-0.9	49.8	2,608	0.7	25.0
Top 1 Percent	1.6	-1,202	63.4	7,481	-0.3	22.9	4,726	0.2	34.5
Top 0.1 Percent	5.6	-1,139	48.3	11,112	-0.1	2.7	5,302	0.1	36.7

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0613-3).

Number of AMT Taxpayers (millions). Baseline: 4.5 Proposal: 5.1

* Less than 0.05

** Insufficient data

(1) Baseline is current law. Proposal would replace the deduction for mortgage interest with a 15 percent non-refundable credit on the first $500,000 of debt on a primary residence, second home, and/or a home equity loan, effective January 1, 2015.
http://www.taxpolicycenter.org/taxtopics/Baseline-Definitions.cfm

(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
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 breaks are (in 2013 dollars): 20% $24,844; 40% $48,286; 60% $82,182; 80% $137,646; 90% $188,937; 95% $271,750; 99% $638,232; 99.9% $3,279,269.

(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); and estate tax.

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

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

Expanded Cash Income Level (thousands of 2013 dollars) [2]	Tax Units with Tax Increase or Cut [3]				Percent Change in After-Tax Income [4]	Share of Total Federal Tax Change	Average Federal Tax Change ($)	Average Federal Tax Rate [5]	
	With Tax Cut		With Tax Increase						
	Pct of Tax Units	Avg Tax Cut	Pct of Tax Units	Avg Tax Increase				Change (% Points)	Under the Proposal
Less than 10	*	**	0.0	0	0.0	0.0	0	0.0	4.4
10-20	3.0	-173	0.0	0	0.0	-2.8	-5	0.0	2.4
20-30	8.4	-294	0.3	211	0.1	-11.5	-24	-0.1	4.8
30-40	18.3	-358	0.8	405	0.2	-24.2	-62	-0.2	7.7
40-50	26.3	-417	1.4	460	0.3	-32.7	-103	-0.2	10.1
50-75	37.1	-534	5.5	405	0.3	-106.5	-176	-0.3	13.5
75-100	40.1	-712	13.4	497	0.3	-84.8	-219	-0.2	15.7
100-200	37.2	-762	29.0	638	0.1	-69.1	-99	-0.1	18.3
200-500	6.2	-691	70.2	1,901	-0.6	275.2	1,291	0.4	23.1
500-1,000	1.1	-1,105	70.9	4,675	-0.7	86.4	3,304	0.5	28.9
More than 1,000	3.1	-1,783	57.2	8,099	-0.2	69.9	4,574	0.1	35.5
All	21.7	-595	11.9	1,296	0.0	100.0	25	0.0	19.7
Addendum									
100-125	44.7	-832	15.9	590	0.3	-77.3	-279	-0.2	16.8
125-150	41.4	-726	24.8	569	0.1	-33.5	-160	-0.1	18.2
150-175	26.4	-648	45.6	664	-0.1	18.0	131	0.1	19.2
175-200	18.1	-648	58.2	730	-0.2	23.7	307	0.2	20.0

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0613-3).

Number of AMT Taxpayers (millions). Baseline: 4.5 Proposal: 5.1

* Less than 0.05

** Insufficient data

(1) Baseline is current law. Proposal would replace the deduction for mortgage interest with a 20 percent non-refundable credit on the first $500,000 of debt on a primary residence, second home, and/or a home equity loan, effective January 1, 2015.
http://www.taxpolicycenter.org/taxtopics/Baseline-Definitions.cfm

(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
http://www.taxpolicycenter.org/TaxModel/income.cfm

(3) Includes tax units with a change in federal tax burden of $10 or more in absolute value.

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

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

Table 3B

Replace the Mortgage Interest Deduction With a 20 Percent Non-Refundable Credit on the First $500,000 of Debt

Baseline: Current Law

Distribution of Federal Tax Change by Expanded Cash Income Percentile, 2015 [1]

Summary Table

Expanded Cash Income Percentile[2,3]	Tax Units with Tax Increase or Cut [4]				Percent Change in After-Tax Income[5]	Share of Total Federal Tax Change	Average Federal Tax Change ($)	Average Federal Tax Rate[6]	
	With Tax Cut		With Tax Increase						
	Pct of Tax Units	Avg Tax Cut	Pct of Tax Units	Avg Tax Increase				Change (% Points)	Under the Proposal
Lowest Quintile	2.9	-218	*	**	0.0	-6.7	-6	0.0	3.1
Second Quintile	18.6	-372	0.9	418	0.2	-57.9	-65	-0.2	8.2
Middle Quintile	37.0	-552	6.4	419	0.3	-139.7	-177	-0.3	13.7
Fourth Quintile	43.0	-785	16.0	555	0.3	-160.3	-248	-0.2	16.8
Top Quintile	18.0	-670	55.3	1,705	-0.3	464.5	823	0.3	25.9
All	21.7	-595	11.9	1,296	0.0	100.0	25	0.0	19.7
Addendum									
80-90	29.5	-660	41.8	660	-0.1	23.0	81	0.1	19.2
90-95	10.8	-689	65.8	1,104	-0.4	91.6	652	0.3	21.2
95-99	2.3	-651	74.0	2,769	-0.7	230.8	2,035	0.5	24.8
Top 1 Percent	2.1	-1,661	62.5	6,679	-0.3	119.2	4,138	0.2	34.4
Top 0.1 Percent	6.6	-1,822	46.5	10,524	-0.1	14.1	4,770	0.1	36.7

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0613-3).

Number of AMT Taxpayers (millions). Baseline: 4.5 Proposal: 5.1

* Less than 0.05

** Insufficient data

(1) Baseline is current law. Proposal would replace the deduction for mortgage interest with a 20 percent non-refundable credit on the first $500,000 of debt on a primary residence, second home, and/or a home equity loan, effective January 1, 2015.
http://www.taxpolicycenter.org/taxtopics/Baseline-Definitions.cfm

(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
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 breaks are (in 2013 dollars): 20% $24,844; 40% $48,286; 60% $82,182; 80% $137,646; 90% $188,937; 95% $271,750; 99% $638,232; 99.9% $3,279,269.

(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); and estate tax.

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

Table 4A
Replace the Deductions for Mortgage Interest and Property Taxes Paid With a Fixed Percent Refundable Credit for Property Taxes Paid
Baseline: Current Law
Distribution of Federal Tax Change by Expanded Cash Income Level, 2015 [1]
Summary Table

Expanded Cash Income Level (thousands of 2013 dollars) [2]	Tax Units with Tax Increase or Cut [3]				Percent Change in After-Tax Income [4]	Share of Total Federal Tax Change	Average Federal Tax Change ($)	Average Federal Tax Rate [5]	
	With Tax Cut		With Tax Increase						
	Pct of Tax Units	Avg Tax Cut	Pct of Tax Units	Avg Tax Increase				Change (% Points)	Under the Proposal
Less than 10	15.7	-293	0.0	0	0.8	-1.9	-46	-0.8	3.7
10-20	19.4	-367	0.0	0	0.5	-5.8	-71	-0.5	1.9
20-30	33.4	-444	0.3	214	0.6	-10.7	-148	-0.6	4.3
30-40	45.3	-489	1.2	434	0.7	-12.7	-216	-0.6	7.3
40-50	50.1	-538	2.9	545	0.6	-12.2	-254	-0.5	9.8
50-75	50.2	-609	9.8	842	0.4	-20.5	-223	-0.4	13.4
75-100	46.2	-727	18.1	1,239	0.2	-6.6	-112	-0.1	15.9
100-200	35.0	-831	38.2	1,798	-0.3	42.2	396	0.3	18.6
200-500	18.9	-956	68.6	3,860	-1.1	79.8	2,466	0.8	23.5
500-1,000	16.8	-1,246	72.7	8,486	-1.2	23.7	5,956	0.9	29.3
More than 1,000	12.5	-1,168	74.9	15,261	-0.5	26.2	11,286	0.4	35.7
All	36.0	-606	14.8	2,589	-0.2	100.0	165	0.2	19.9
Addendum									
100-125	42.5	-827	25.9	1,416	0.0	0.6	15	0.0	17.1
125-150	35.0	-826	37.6	1,603	-0.3	10.0	313	0.2	18.6
150-175	26.8	-846	51.9	2,056	-0.6	17.5	839	0.5	19.7
175-200	22.9	-853	60.3	2,329	-0.8	14.2	1,208	0.6	20.5

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0613-3).
Number of AMT Taxpayers (millions). Baseline: 4.5 Proposal: 3.9
* Less than 0.05
** Insufficient data
(1) Baseline is current law. Proposal would replace the deductions for mortgage interest and property taxes paid with a refundable credit equal to 56% of property taxes paid up t $1,400 ($2,100 for married taxpayers filing jointly), effective January 1, 2015.
http://www.taxpolicycenter.org/taxtopics/Baseline-Definitions.cfm
(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
http://www.taxpolicycenter.org/TaxModel/income.cfm
(3) Includes tax units with a change in federal tax burden of $10 or more in absolute value.
(4) After-tax income is expanded cash income less: individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); and estate tax.
(5) Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, and the estate tax) as a percentage of average expanded cash income.

Table 4B

Replace the Deductions for Mortgage Interest and Property Taxes Paid With a Fixed Percent Refundable Credit for Property Taxes Paid

Baseline: Current Law

Distribution of Federal Tax Change by Expanded Cash Income Percentile, 2015 [1]

Summary Table

Expanded Cash Income Percentile[2,3]	Tax Units with Tax Increase or Cut [4]				Percent Change in After-Tax Income[5]	Share of Total Federal Tax Change	Average Federal Tax Change ($)	Average Federal Tax Rate[6]	
	With Tax Cut		With Tax Increase						
	Pct of Tax Units	Avg Tax Cut	Pct of Tax Units	Avg Tax Increase				Change (% Points)	Under the Proposal
Lowest Quintile	21.0	-371	*	**	0.5	-12.5	-78	-0.5	2.6
Second Quintile	44.3	-498	1.5	450	0.6	-28.8	-214	-0.6	7.8
Middle Quintile	49.9	-617	10.5	902	0.4	-25.5	-213	-0.3	13.6
Fourth Quintile	42.7	-797	24.6	1,406	0.0	0.5	5	0.0	17.0
Top Quintile	23.4	-891	59.2	3,655	-0.8	167.8	1,955	0.6	26.3
All	36.0	-606	14.8	2,589	-0.2	100.0	165	0.2	19.9
Addendum									
80-90	28.1	-834	49.8	1,988	-0.6	32.4	755	0.5	19.6
90-95	20.2	-840	65.4	2,977	-1.0	38.0	1,778	0.8	21.7
95-99	18.2	-1,128	71.1	4,911	-1.1	56.6	3,285	0.9	25.2
Top 1 Percent	13.8	-1,165	74.5	12,738	-0.7	40.8	9,330	0.4	34.7
Top 0.1 Percent	14.0	-1,319	76.0	21,238	-0.3	7.2	15,945	0.2	36.8

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0613-3).

Number of AMT Taxpayers (millions). Baseline: 4.5 Proposal: 3.9

* Less than 0.05

** Insufficient data

(1) Baseline is current law. Proposal would replace the deductions for mortgage interest and property taxes paid with a refundable credit equal to 56% of property taxes paid up t $1,400 ($2,100 for married taxpayers filing jointly), effective January 1, 2015.
http://www.taxpolicycenter.org/taxtopics/Baseline-Definitions.cfm

(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
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 breaks are (in 2013 dollars): 20% $24,844; 40% $48,286; 60% $82,182; 80% $137,646; 90% $188,937; 95% $271,750; 99% $638,232; 99.9% $3,279,269.

(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); and estate tax.

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

Table 5A
Replace the Mortgage Interest Deduction With a Flat Amount Refundable Credit for Homeownership
Baseline: Current Law
Distribution of Federal Tax Change by Expanded Cash Income Level, 2015 [1]
Summary Table

Expanded Cash Income Level (thousands of 2013 dollars) [2]	Tax Units with Tax Increase or Cut [3]				Percent Change in After-Tax Income [4]	Share of Total Federal Tax Change	Average Federal Tax Change ($)	Average Federal Tax Rate [5]	
	With Tax Cut		With Tax Increase						
	Pct of Tax Units	Avg Tax Cut	Pct of Tax Units	Avg Tax Increase				Change (% Points)	Under the Proposal
Less than 10	23.1	-582	0.0	0	2.3	-5.2	-134	-2.2	2.2
10-20	29.2	-572	0.1	127	1.1	-12.9	-167	-1.1	1.3
20-30	39.4	-590	0.8	373	0.9	-15.7	-229	-0.9	4.0
30-40	46.8	-601	2.1	545	0.8	-15.1	-270	-0.7	7.1
40-50	49.4	-618	4.4	625	0.7	-12.6	-278	-0.6	9.8
50-75	47.4	-624	13.0	889	0.3	-15.7	-180	-0.3	13.4
75-100	41.5	-631	22.9	1,213	0.0	0.9	15	0.0	16.0
100-200	28.6	-577	44.6	1,779	-0.5	63.4	629	0.4	18.8
200-500	18.4	-617	69.2	4,044	-1.2	82.3	2,686	0.9	23.5
500-1,000	21.0	-699	68.4	7,656	-1.0	19.2	5,094	0.7	29.1
More than 1,000	30.4	-714	57.0	11,204	-0.3	13.5	6,165	0.2	35.5
All	36.8	-604	17.1	2,322	-0.2	100.0	175	0.2	19.9
Addendum									
100-125	36.7	-593	31.5	1,395	-0.2	8.8	221	0.2	17.3
125-150	26.9	-552	45.6	1,586	-0.5	17.3	574	0.4	18.8
150-175	20.4	-577	58.5	2,084	-0.8	21.7	1,100	0.7	19.8
175-200	18.4	-564	64.7	2,330	-0.9	15.6	1,405	0.7	20.6

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0613-3).

Number of AMT Taxpayers (millions). Baseline: 4.5 Proposal: 5.0

* Less than 0.05

** Insufficient data

(1) Baseline is current law. Proposal would replace the deduction for mortgage interest with a refundable credit for all homeowners of $536 ($804 for married taxpayers filing jointly), effective January 1, 2015.
http://www.taxpolicycenter.org/taxtopics/Baseline-Definitions.cfm

(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
http://www.taxpolicycenter.org/TaxModel/income.cfm

(3) Includes tax units with a change in federal tax burden of $10 or more in absolute value.

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

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

Table 5B

Replace the Mortgage Interest Deduction With a Flat Amount Refundable Credit for Homeownership

Baseline: Current Law

Distribution of Federal Tax Change by Expanded Cash Income Percentile, 2015 [1]

Summary Table

Expanded Cash Income Percentile[2,3]	Tax Units with Tax Increase or Cut [4]				Percent Change in After-Tax Income[5]	Share of Total Federal Tax Change	Average Federal Tax Change ($)	Average Federal Tax Rate[6]	
	With Tax Cut		With Tax Increase						
	Pct of Tax Units	Avg Tax Cut	Pct of Tax Units	Avg Tax Increase				Change (% Points)	Under the Proposal
Lowest Quintile	29.6	-578	0.1	283	1.2	-25.9	-171	-1.1	2.0
Second Quintile	46.0	-604	2.4	549	0.8	-33.6	-264	-0.7	7.6
Middle Quintile	46.8	-627	14.0	939	0.3	-18.4	-162	-0.3	13.7
Fourth Quintile	37.0	-603	30.3	1,373	-0.2	18.0	193	0.2	17.2
Top Quintile	20.4	-595	62.2	3,401	-0.8	162.0	1,995	0.6	26.3
All	36.8	-604	17.1	2,322	-0.2	100.0	175	0.2	19.9
Addendum									
80-90	21.7	-562	56.1	2,014	-0.8	40.9	1,009	0.6	19.8
90-95	18.4	-593	67.2	2,940	-1.0	37.7	1,867	0.8	21.8
95-99	17.9	-656	71.4	5,258	-1.3	59.3	3,634	1.0	25.3
Top 1 Percent	27.0	-713	61.3	9,794	-0.4	24.1	5,810	0.3	34.5
Top 0.1 Percent	39.9	-724	50.1	12,980	-0.1	2.6	6,210	0.1	36.7

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0613-3).

Number of AMT Taxpayers (millions). Baseline: 4.5 Proposal: 5.0

* Less than 0.05

** Insufficient data

(1) Baseline is current law. Proposal would replace the deduction for mortgage interest with a refundable credit for all homeowners of $536 ($804 for married taxpayers filing jointly), effective January 1, 2015.

http://www.taxpolicycenter.org/taxtopics/Baseline-Definitions.cfm

(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

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 breaks are (in 2013 dollars): 20% $24,844; 40% $48,286; 60% $82,182; 80% $137,646; 90% $188,937; 95% $271,750; 99% $638,232; 99.9% $3,279,269.

(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); and estate tax.

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