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Exploring Pros and Cons of Rolling Back Mortgage Interest Deductions

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The deficit commission appointed by President Obama has recommended rolling back mortgage interest deductions to cut back deficit bedeviling our country. Although it is unclear if the recommendations in their current form are to be adopted, the mere mention of once sacrosanct subject could be interpreted as both lofty and ludicrous. Let us explore the specifics of such proposal further and evaluate its efficacy in cutting back deficit.

SOME OF THE SPECIFICS OF ONE OF THE PROPOSALS

The main proposal laid out by the deficit commission has the following elements:

- **NO $1,000,000 MORTGAGE INTEREST DEDUCTION:** Filers could deduct up to $500,000 of their mortgage. This threshold is half of the current $1,000,000.
- **NO $100,000 MORTGAGE INTEREST DEDUCTION FOR HOME EQUITY OR VACATION HOMES:** Filers could no longer deduct interest on home equity or vacation homes. Currently, home equity loans are entitled to mortgage interest deduction up to the first $100,000.

SOME OF THE OPPONENTS' ARGUMENTS

- **NO CHANGE NEEDED WHEN THE REAL ESTATE MARKET IS ALREADY BLEEDING:** Probably, the most cogent argument put forth by opponents of elimination of or reduction of mortgage interest deduction is summarized as follows: Given the already persistent volatile and precarious real estate market with such incentives in place, think what will happen if such incentives are taken away.
- **NO CHANGE NEEDED WHEN THE PROPOSAL HITS THE THE WORST PERFORMING AREAS WORST:** This argument posits coastal and high-end real

estate markets are hit worst, since they are often the places where a single family home costs more than $500,000. Since these places are already among the worst performing areas, this proposition is tantamount to coup de gras to the housing sector, they argue.

SOME OF THE PROPONENTS' ARGUMENTS

- **NO REAL IMPACT ON HOME OWNERSHIP FOR MOST AMERICANS:** Some influential and well-known economists have argued for a long time against the current structure of mortgage interest deductions. They assert such deductions only benefit the affluent since to take advantage of the deductions taxpayer must itemize, and most middle-income taxpayers fare better if they do not itemize.
- **NO REAL GAIN FROM MORTGAGE INTEREST DEDUCTIONS:** As a corollary to the latter proposition, some economists contend the current structure entices even the wealthier borrowers to pile on more debt as they are the ones to benefit the most from such scheme.
- **NO REAL GAIN FOR THE GOVERNMENT OR TAXPAYERS:** Hence, such economists argue, there is no benefit in keeping such deductions when the government is losing money in the form of not receiving taxes and most taxpayers are not really benefiting because of the current scheme.

THE BOTTOM LINE

- **DEFICIT MUST BE ADDRESSED:** Everybody agrees with the current budget deficit real estate is hit very hard by very high interest rates if the deficit is not addressed. The problem is how to address the budget deficit without exacerbating the already anemic real estate market.
- **DEFICIT REDUCTION MUST ACCOMPANY SACRIFICES:** Everybody agrees with the current budget deficit there are some sacrifices.
- **DEFICIT REDUCTION MUST BE PHASED IN OVER TIME:** Everybody agrees with the current budget deficit any sacrifices would be phased in over time to preclude or minimize disruption to real estate market or economy as a whole.

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