THE Fiscal TIMES

Money + Markets

How the GOP’s Tax Plan Could Hurt the Value of Your Home

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Until recently, the mortgage interest deduction was right up there with Social Security as a sacrosanct institution on Capitol Hill, protected by lawmakers on both sides of the aisle. Backed by the powerful National Association of Realtors and supported broadly by middle-class homeowners, previous efforts to dismantle the mortgage deduction have gone nowhere.

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However, the **Better Way tax-reform “blueprint”** from Republican House Speaker Paul Ryan would essentially get rid of the mortgage interest deduction, without policymakers having to vote to eliminate it. The plan would make the standard deduction far more valuable -- increasing it from $12,600 to $24,000 for a married couple. This would result in far fewer people itemizing their taxes, which is necessary in order to claim the mortgage tax deduction. (President-elect **Donald Trump’s tax plan** calls for raising the deduction even higher, to $30,000 for joint filers.)

Under the House Republicans’ plan, an estimated 38 million of the 45 million filers (or 84 percent) who currently itemize would opt instead for the standard deduction, **according to an analysis by the Tax Policy Center(http://www.taxpolicycenter.org/sites/default/files/alfresco/publication-pdfs/2000923-An-Analysis-of-the-House-GOP-Tax-Plan.pdf)**. The GOP proposal states that “far fewer taxpayers will choose to itemize deductions, with the vast majority of taxpayers finding they are better off by taking advantage of the larger, simpler standard deduction instead.”

Under **current rules**, taxpayers can itemize and deduct the interest paid on up to $1 million on a mortgage, and home equity debt of up to $100,000. The mortgage interest deduction is the third-most expensive subsidy in the tax code, costing the federal government about $70 billion per year, **according to the Tax Foundation(http://taxfoundation.org/article/corporate-and-individual-tax-expenditures)**.

Even with Republican control of the House, Senate and the White House, the Republican tax plan is nowhere near a done deal. Nearly three-quarters of Americans **recently polled by the National Association of Home Builders** say that they support the government providing tax incentives that encourage homeownership, and lobbyists for the real estate and construction industries are already gearing up to fight the provision.

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If the blueprint were to become law, it would have ramifications for millions of taxpayers, homeowners and sellers, but the overall impact on the housing market (and your wallet) may be smaller than you think. Here's what you need to know:

1. Home values could fall in the short-term.

The total elimination of the mortgage interest deduction might push prices down around 7 percent, according a **recent paper from the Federal Reserve**. The impact might be smaller if the deduction is not fully repealed. That's a relatively small decrease compared to the double-digit decline seen after the housing bubble burst in 2006, but it would mean a paper loss of nearly $17,000 on the average $240,000 home. Still, the impact of increasing the standard deduction, rather than eliminating the mortgage-interest deduction, would likely have a smaller impact.

2. But only a small portion of taxpayers uses the mortgage-interest deduction.

While it enjoys broad support, the vast majority of homeowners don't benefit from the mortgage interest deduction as it currently stands. The benefit is only available to those who have a mortgage on their home and who itemize their taxes.

Only about 20 percent of taxpayers currently claim the deduction, and it has an average benefit of just over $2,000, **according to the Tax Policy Center(http://www.taxpolicycenter.org/publications/options-reform-deduction-home-mortgage-interest-1/full)**. "You go to [mid-tier markets] like Texas, Florida, and Arizona, and no one talks about buying a home to save on taxes," says John Burns of John Burns Real Estate Consulting, which provides data and advice to real estate investor. "It's not even part of the equation anymore."

3. Most consumers would still be better off buying.

It's cheaper to buy than to rent a home in most parts of the country, and that wouldn't change with the elimination of the mortgage deduction. "This doesn't fundamentally affect the rent-versus-buy decision," says Trulia Chief Economist Ralph McLoughlin. "It makes it less of a better deal to buy than to rent, but buying still remains a good financial option if a household can stay in their home for seven years."

A **calculation by *Politico*(http://www.politico.com/story/2016/12/lobbyists-mortgage-interest-deduction-tax-233081)** finds that a homeowner with a $65,000 annual salary would see the tax benefits of buying a $263,000 condo plummet from $3,325 a year to $166. Tying up your assets and losing the ability to easily relocate may not be worth that much, although there are other benefits of homeownership, such as growing equity and protection from rising rents, and there are many emotional incentives that compel people to become home owners.

4. Middle-income homeowners would feel the biggest bite.

Any impact on home prices would likely be concentrated on more moderately priced homes, where the owners aren't paying enough in interest to outweigh taking the new deduction but aren't in a high enough tax bracket to get a huge break. The Tax Policy Center estimates that middle-income taxpayers would see an average tax cut of only $260 per year under the Republican plan. That's hardly enough to offset even a modest loss in home equity, although long-term demand would likely see prices bounce back over time.

5. High-income homeowners would benefit.

The wealthiest homeowners would benefit from both the tax cut and continued access to the mortgage-interest deduction, since they'd likely continue to itemize. Those making more than $1 million a year typically save nearly $9,000 thanks to the deduction. Under the Republic tax plan, the top quintile of taxpayers would also receive an average tax cut of $11,000 a year.

Due to larger mortgages and a higher tax rate, wealthy borrowers already benefit disproportionately from the mortgage interest deductions, which wouldn't change. Wealthy taxpayers often choose to finance the purchase of a home even though they could pay cash, as part of a broader tax planning strategy.

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