Mortgage Interest Credit [MIC]

June is National Homeownership Month. CHLA is taking this opportunity to call on Congress to begin debate and in 2025 to enact a Mortgage Interest Credit (MIC) as it considers expiring 2017 tax provisions.

Community Home Lenders of America (CHLA) - PROPOSAL

- 15% tax credit (refundable) for mortgage interest payments.
- Limited to 1st-time Homebuyers.
- Cap on adjusted gross income, with credit phaseout (e.g., the credit phases out for married tax filers between $150,000 to $200,000 of adjusted gross income (AGI) [and between $75,000 to $100,000 for single filers].
- Credit can only be taken on interest on mortgage amounts up to $750,000 (current MID cap).
- No double dipping; can't use same interest for mortgage credit and mortgage interest deduction.

BACKGROUND

- The 2017 "Tax Cuts and Jobs Act" raised the standard deduction for married filers from $12,700 to $24,000 [$29,200 in 2024) and from $6,350 to $12,000 [$14,600 in 2024) for single filers.
- The 2017 tax act also capped the maximum allowable state and local tax deduction at $10,000 (the so-called SALT cap). This all but eliminated tax benefits for property taxes on a home.
- These two combined changes significantly reduced the value (tax benefits) of the mortgage interest deduction, since significantly fewer taxpayers now use itemized deductions. For example, the Joint Committee on Taxation estimates that the annual tax benefit value ("tax expenditures") for the mortgage interest deduction decreased from **$64.6 billion in 2017** *[and, extrapolating, to over $100 billion in 2024 without the 2017 changes)* to **$31.0 billion in 2023.**
- Moreover, *"the benefits of the mortgage interest deduction disproportionately accrue to taxpayers at the upper end of the income distribution and more disproportionately than under prior law,"* according to an **analysis of the Congressional Research Service**.
- Assuming Congress retains a higher standard deduction and a SALT cap, it should restore the lost tax benefits related to mortgage interest, by creating a targeted **Mortgage Interest Credit (MIC)**.
- A Mortgage Interest Credit could be targeted - to maximize homeownership benefits. It could (1) apply only to 1st time homebuyers, (2) be capped and phased out by AGI, (3) be refundable, and (4) distribute tax benefits more equitably regardless of income bracket through a tax credit.
- Finally, a Mortgage Interest Credit could be molded to fit tax scoring cost budget parameters, through adjustments to factors like the AGI income phaseout and extent of refundability.

SUPPORT FOR MORTGAGE INTEREST CREDIT

- During debate on the 2017 tax bill, CHLA aggressively advocated for a Mortgage Interest Credit (MIC), when it became clear the value of the mortgage interest deduction would be diminished.
- The National Low Income Housing Coalition (NLIHC) also supported an MIC in 2017.
- A **November 2023 paper by the BiPartisan Policy Center** (BPC) on the mortgage interest deduction points out that 3 bipartisan commissions have proposed a mortgage interest tax credit: BPC's Domenici-Rivlin Debt Reduction Task Force, the National Commission on Fiscal Responsibility and Reform (Bowles-Simpson), and the President's Advisory Panel on Federal Tax Reform (Mack-Breaux).