



March 23, 2026

Reforms to the Mortgage Interest Deduction with Revenue Estimates

This In Focus provides an overview of the mortgage interest deduction under current law and presents revenue estimates for selected reforms to the deduction. Reforming or modifying the mortgage interest deduction could address concerns about the deduction’s effectiveness in promoting homeownership and the distribution of its benefits. Certain reforms to the mortgage interest deduction could also generate additional revenue, which could be used to either reduce the deficit or offset the lost revenue associated with other policy changes. According to the most recent official congressional estimates from the Joint Committee on Taxation (JCT), the mortgage interest deduction is expected to reduce federal tax revenues by \$261.1 billion between FY2025 and FY2029.

For an in-depth analysis of the deduction, see CRS Report R46429, *An Economic Analysis of the Mortgage Interest Deduction*, by Mark P. Keightley.

Summary of Current Law

A taxpayer may claim an itemized deduction for “qualified residence interest,” which includes interest paid on a mortgage secured by either a principal residence or a second residence. The amount of interest that is deductible depends on when the mortgage debt was incurred. For mortgage debt incurred on or before December 15, 2017, the deduction is limited to the interest incurred on the first \$1 million (\$500,000 for married filing separately) of combined mortgage debt. For mortgage debt incurred after December 15, 2017, the limit is \$750,000 (\$375,000 for married filing separately).

If a taxpayer has mortgage debt exceeding the applicable mortgage limit (\$750,000 or \$1 million), he or she may still claim a deduction for a percentage of interest paid equal to the applicable mortgage limit divided by the remaining mortgage balance. For example, a homeowner whose mortgage was originated after December 15, 2017, and has a balance of \$1 million could deduct 75% (\$750,000 divided by \$1 million) of the interest payments.

Refinanced mortgage debt is treated as having been incurred on the origination date of the original mortgage for purposes of determining the applicable mortgage limit (\$750,000 or \$1 million). The balance of the new loan resulting from the refinance, however, may not exceed the balance of the original loan. This may occur, for example, when a homeowner “cashes out” equity in the home by obtaining a larger loan than is necessary to pay off the current mortgage balance.

For purposes of the deduction, mortgage debt includes home equity loans secured by a principal or second

residence that are used to buy, build, or substantially improve a taxpayer’s home. Mortgage debt *does not include* home equity loans when the proceeds are used for purposes unrelated to the property securing the loan. For example, interest associated with a home equity loan that is used to pay off a credit card balance, go on a vacation, or send a child to college does not qualify for the mortgage interest deduction. The restrictions on the use of home equity loans apply irrespective of when the loan was originated.

Distribution of Tax Expenditure

Table 1 presents a condensed version of the JCT’s estimates of the distribution of the mortgage interest deduction tax expenditure in 2025 (most recent year available). The distribution breaks down 17.8 million returns claiming the deduction and the \$52.6 billion tax expenditure for that year.

Table 1. Distribution of Mortgage Interest Deduction Tax Expenditure by Income Class, 2025

Income Class (in thousands)	Share of Claimants	Share of Tax Expenditure
Below \$15	0.0%	0.0%
\$15 to \$30	0.3%	0.0%
\$30 to \$40	0.5%	0.1%
\$40 to \$50	0.6%	0.1%
\$50 to \$80	4.3%	1.1%
\$80 to \$100	5.5%	1.9%
\$100 to \$200	30.6%	18.6%
\$200 to \$500	45.5%	50.3%
\$500 and over	12.8%	27.9%
Total	100%	100%

Source: CRS calculations using estimates reported in U.S. Congress, Joint Committee on Taxation, *Estimates of Federal Tax Expenditures for Fiscal Years 2025-2029*, 119th Cong., 1st sess., December 3, 2025, JCX-45-25.

Table 1 indicates that nearly all (96.8%) of the benefit of the mortgage interest deduction is realized by homeowners with incomes of \$100,000 or greater, and that more than three quarters (78.2%) of the benefit is realized by those with income of \$200,000 or greater. The primary reason for the concentration of benefit above these income thresholds is the requirement that taxpayers must itemize to claim the deduction. Additionally, home purchase prices, mortgage balances, and marginal tax rates are positively correlated

with income, which will tend to result in a larger deduction benefit as income increases.

Budgetary Impacts of Selected Reforms

A number of options have been proposed as part of debates over the mortgage interest deduction. The options fall into three general categories: eliminate the deduction, limit the deduction, and replace the deduction with a credit. Within each one of these categories is a wide range of possible specific policy variants and design choices that could be implemented. **Table 2** presents estimates of selected versions of specific policies, which are discussed in more detail below.

Table 2. Estimated Revenue Effects FY2026-FY2035
(billions of nominal dollars)

Reform	Total Revenue Change (FY2026-FY2035)
Repeal MID	\$495
MID limited to \$10K of interest	\$368
MID limited to \$20K of interest	\$240
10% nonrefundable credit	\$65
10% refundable credit	\$44
12% nonrefundable credit	-\$20
12% refundable credit	-\$46
15% nonrefundable credit	-\$145
15% refundable credit	-\$181

Source: CRS estimates and calculations using the Budget Lab at Yale Tax-Simulator Model (Commit 18a25c8f0).

Repeal the Deduction

Repeal of the mortgage interest deduction could occur either all at once or gradually over time using a phaseout or grandfather approach. The reform in **Table 2** assumes the deduction is repealed completely in 2026. Gradually phasing out the deduction could mitigate any negative consequences for the economy and housing market but could also reduce the revenue gain over the estimation window depending on how quickly it was phased out.

Limit the Deduction

The deduction could be limited in a number of ways. One of the more straightforward ways would be to limit the amount of annually deductible interest. **Table 2** presents estimates for limiting the amount of deductible mortgage interest to \$10,000 and \$20,000 per year, while keeping the current maximum mortgage limits in place.

The amount of interest that could be deducted could also be limited to a percentage of a homeowner's adjusted gross income (AGI) to provide a more consistent rate of subsidization across income levels. The deduction could also be limited to homeowners with incomes below a certain income threshold, or by disallowing the deduction of interest on second homes.

Another approach to limiting the deduction would be to reduce the combined maximum mortgage limit, an approach used in the past. The Omnibus Budget Reconciliation Act of 1987 (P.L. 100-203) limited the maximum mortgage balance to \$1 million. Prior to that there was no limit. P.L. 115-97, sometimes referred to as the Tax Cuts and Jobs Act of 2017, further reduced the maximum mortgage limit to the current \$750,000 amount in place today.

Replace the Deduction with a Credit

The mortgage interest deduction could be replaced with a tax credit. **Table 2** presents estimates for replacing the deduction with nonrefundable and refundable versions of credits at three different rates: 10%, 12%, and 15%. A tax credit for mortgage interest could provide a benefit to more homeowners because itemization would no longer be required. A credit would also create a more consistent rate of subsidization across homeowners, as the value of a deduction varies with the taxpayer's marginal income tax rate. Making the tax credit refundable would better target lower-income homeowners.

Estimation Methodology and Considerations

The estimates contained in **Table 2** were made by CRS using the Budget Lab at Yale's open-source Tax-Simulator and are not considered official for revenue "scoring" purposes or compliance with budgetary rules. The Joint Committee on Taxation provides Congress with official tax revenue estimates. The estimates in **Table 2** are intended to inform congressional deliberations and would likely differ from those produced by the JCT.

Tax-Simulator takes as its primary input individual tax records and calculates tax liabilities according to the tax code. It also uses other data to model nonfilers and estimate other information. However, Tax-Simulator relies on a somewhat dated sample of individual tax records produced by the IRS: the 2015 Public Use File (PUF). This limitation is common to *all* nonofficial government tax simulation models (e.g., Tax Policy Center and Policy Simulation Library) that rely on tax data for producing estimates. Use of the 2015 PUF requires the data to be "aged" to make estimations in more recent and future years. The JCT has access to more recent tax records data. This, along with the other steps needed to create a useable data input file and modeling approaches, leads to differences in estimates between Tax-Simulator and JCT.

CRS adjusted the estimates produced by Tax-Simulator in an attempt to align them more closely to those JCT might produce. Specifically, CRS compared Tax-Simulator total estimate for repealing the mortgage interest deduction from FY2026 to FY2029 with JCT's tax expenditure estimate for that provision over the same time period and adjusted all Tax-Simulator estimates by the ratio of the two.

Mark P. Keightley, Specialist in Economics

IF13190

Disclaimer

This document was prepared by the Congressional Research Service (CRS). CRS serves as nonpartisan shared staff to congressional committees and Members of Congress. It operates solely at the behest of and under the direction of Congress. Information in a CRS Report should not be relied upon for purposes other than public understanding of information that has been provided by CRS to Members of Congress in connection with CRS's institutional role. CRS Reports, as a work of the United States Government, are not subject to copyright protection in the United States. Any CRS Report may be reproduced and distributed in its entirety without permission from CRS. However, as a CRS Report may include copyrighted images or material from a third party, you may need to obtain the permission of the copyright holder if you wish to copy or otherwise use copyrighted material.