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INSIGHT

P.L. 115-97: The Mortgage Interest Deduction

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P.L. 115-97, the 2017 tax revision, was enacted on December 22, 2017. The law makes significant changes to the federal tax system, including to the mortgage interest deduction. This Insight briefly explains the 2017 law governing the mortgage interest deduction and the modifications made to the deduction by P.L. 115-97.

2017 Law

For the 2017 tax year, a homeowner may deduct the interest paid on a mortgage that finances the acquisition of a primary or secondary residence as long as the homeowner itemizes their tax deductions. The amount of interest that may be deducted is limited to the interest incurred on the first $1 million of combined mortgage debt and the first $100,000 of home equity debt ($1.1 million total). If a taxpayer has mortgage debt exceeding $1 million, they may still claim a deduction for a percentage of interest paid. The percentage of interest that is deductible is equal to $1 million divided by the mortgage balance (a similar calculation is made separately in cases where home equity debt exceeds $100,000). For example, a homeowner with a mortgage of $1.25 million may deduct 80% ($1 million divided by $1.25 million) of their interest payments.

Modifications Made by P.L. 115-97

P.L. 115-97 modifies the mortgage interest deduction in two ways. First, the maximum mortgage amount is temporarily reduced to $750,000 for debt incurred after December 15, 2017. Mortgage debt that is the result of a refinance on or before December 15, 2017, is exempt from the reduction to the extent that the new mortgage does not exceed the amount refinanced. Second, the ability to deduct interest on new and existing home equity debt is temporarily suspended. The temporary reduction in the maximum mortgage amount and the temporary suspension regarding home equity debt applies to taxable years beginning after December 31, 2017, and beginning before January 1, 2026.

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Two other changes included in P.L. 115-97 will likely reduce the number of homeowners claiming the mortgage interest deduction. P.L. 115-97 limits the deduction for state and local property and income taxes (SALT) to $10,000 until the end of 2025. The SALT deduction is a primary reason why taxpayers choose to itemize. As a result, limiting the deduction will reduce the number of homeowners who itemize their deductions and therefore the number claiming the mortgage interest deduction. Additionally, P.L. 115-97 increases the standard deduction to $12,000 (single) and $24,000 (married), which will further reduce the number of taxpayers who itemize and claim the deduction.

Budgetary Effects

The Joint Committee on Taxation (JCT) did not provide an estimate specifically for the changes to the mortgage interest deduction. The JCT only provided an estimate for the combined set of itemized deductions that were temporarily repealed or modified, which included provisions such as the deductions for state and local taxes and nondisaster casualty losses, among others.