An Economic Analysis of the Mortgage Interest Deduction

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SUMMARY

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This report provides an economic analysis of the mortgage interest deduction. Although other tax benefits for homeowners exist, the deduction for mortgage interest is arguably the most well-known tax benefit, and is the tax benefit most often associated with promoting homeownership. Due to recent changes enacted by P.L. 115-97, often referred to as "The Tax Cuts and Jobs Act" or TCJA, the size of the deduction, in terms of forgone federal tax revenues, has decreased significantly. For example, in 2017, prior to the TCJA, the deduction was estimated to cost $66.4 billion by the Joint Committee on Taxation (JCT). In comparison, the JCT estimated the deduction will cost $30.2 billion in 2020. Much of the reduced cost is the result of the TCJA's nearly doubling of the standard deduction and limitation of the state and local tax (SALT) deduction, which made itemizing deductions less attractive to many taxpayers; the mortgage interest deduction may only be claimed if a taxpayer itemizes their deductions. Additionally, the cost of the deduction was reduced because the TCJA temporarily lowered the maximum eligible mortgage amount for the deduction from $1 million to $750,000 and changed the treatment of home equity debt.

The report begins by summarizing trends in homeownership and reviewing current and past versions of the mortgage interest deduction. Next, brief historical and international perspectives of the mortgage interest deduction are presented. The analysis then focuses on two dimensions of promoting homeownership and the mortgage interest deduction. First, the analysis focuses on the rationales commonly offered for providing tax benefits for homeowners, mainly that homeownership (1) bestows certain benefits on society as a whole, such as higher property values, lower crime, and higher civic participation, among others; (2) is a means of promoting a more even distribution of income and wealth; and (3) has a positive effect on living conditions, which can lead to a healthier population. Economists have been able to establish that a correlation exists between homeownership and a number of these outcomes, but have had difficulty determining the nature of the relationship (e.g., does homeownership lead to financial stability, or are financially stable households more likely to own their home because they have the resources to do so?).

The analysis then turns to examining the effect that the mortgage interest deduction has on the homeownership rate, housing consumption, and the economy. The analysis in this report suggests that the deduction may have a larger effect on the size of homes purchased than on the decision to become a homeowner. The possibility that attempting to promote homeownership via the tax code may distort the allocation of capital and labor, which could hinder the economy's performance in the short run and long run, is also raised.

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Introduction

The mortgage interest deduction has historically been important to policymakers and the public due in part to homeownership's association with the American Dream. It is often argued that homeownership paves the way to financial stability and equality, and that homeowners are happier and healthier, both emotionally and physically. Another frequent contention is that homeownership generates benefits for those beyond just a home's owner in the form of higher neighborhood property values, lower crime rates, and greater civic participation, among others. Economists have been able to establish that a correlation exists between homeownership and a number of these outcomes, but have had difficulty determining the nature of the relationship (e.g., does homeownership lead to financial stability, or are financially stable households more likely to own their home because they have the resources to do so?).

The mortgage interest deduction may help individuals and society realize these benefits if they are the result of higher homeownership rates, and if the mortgage interest deduction is effective at promoting homeownership. Economists express caution, however, over how effective the deduction may be at promoting homeownership since the deduction does not address the primary barrier to homeownership, the down-payment requirement. Additionally, any effect the deduction has had on homeownership in the past is likely now smaller due to the 2017 tax revision (P.L. 115-97), commonly referred to as the Tax Cuts and Jobs Act (TCJA). The TCJA reduced the maximum mortgage amount that qualifies for the deduction and, more importantly, nearly doubled the standard deduction, making itemized deductions less attractive to many taxpayers. Only those taxpayers who itemize their deductions are eligible for the mortgage interest deduction.

U.S. Homeownership over Time

The homeownership rate in the United States generally increased for much of the period over which data are available. In 1900, 46.5% of Americans owned the home that they lived in. By 1950, the homeownership rate had increased to 55.0%, and to 67.4% by 2000. Homeownership peaked in 2004 at 69.0% (not shown), and today it stands at 65.3%. The most current data from the third quarter of 2019 show that of the 139.8 million homes in the United States, 79.5 million serve as principal residences.[1] Another 43.2 million homes are renter-occupied, and the remaining 17.1 million are either for sale, for rent, or for seasonal use.

Homeownership at a Glance

Year	Homeownership Rate
1900	46.5%
1950	55.0%
2000	67.4%
2005	68.9%
2010	66.9%
2015	63.7%
2019	64.5%
2020 (Q1)	65.3%

Source: U.S. Census Bureau.

[1] U.S. Census Bureau, Current Population Survey/Housing Vacancy Survey, Table 4, https://www.census.gov/housing/hvs/data/q319ind.html.

The size of homes that Americans own has also generally trended upward over time, while family size has trended downward.[2] In 1970 the median new home was around 1,385 square feet. By 2010, the median new home was roughly 2,169 square feet—an increase of 57%. Over this same time period, the average family size decreased. In 1970, the average family size was 3.58 persons; in 2010, it was 3.16 persons. The median home size continued to increase through 2015, but by 2018 had decreased slightly. Between 2010 and 2018, the average family size ticked slightly lower. Overall, the data suggest that the trend upward in home size has been even larger after adjusting for family size. In short, Americans have tended to build bigger homes while tending to have smaller families. This trend can have important ramifications in terms of land use, energy use, transportation, and affordability. An important policy question is then what role, if any, does the mortgage interest deduction play in determining the size of homes buyers purchase? This is addressed in the "Effect on Housing Consumption" section of this analysis.

Home and Family Size

Year	Median New House Size (sq. ft.)	Average Family Size
1970	1,385	3.58
1980	1,595	3.29
1990	1,905	3.19
2000	2,057	3.17
2005	2,227	3.13
2010	2,169	3.16
2015	2,467	3.14
2018	2,386	3.14

Source: Statistical Abstract of The United States.

The Mortgage Interest Deduction

Current Law

Homeowners are allowed to deduct the interest they pay on a mortgage that finances a primary residence or a second home as long as they itemize their tax deductions. For example, a homeowner who pays $10,000 in mortgage interest in a given year and itemizes deductions can subtract $10,000 from his or her adjusted gross income. If this individual is in the 24% marginal tax bracket, the deduction reduces his or her income taxes by $2,400 ($10,000 multiplied by 24%).

The value of the deduction to a homeowner generally increases with taxpayer income for three reasons. First, the higher income households are generally more likely to itemize their tax deductions, which is a prerequisite for benefiting from the mortgage interest

Distribution of Mortgage Interest Deduction Tax Expenditure by Income Class, 2018

Income Class	Share of Claimants	Share of Tax Expenditure
Below $30k	0.6%	0.1%
$30k to $40k	0.9%	0.2%
$40k to $50k	1.5%	0.4%
$50k to $75k	8.6%	2.7%
$75k to $100k	12.0%	5.8%
$100k to $200k	39.0%	26.8%
$200k and over	37.3%	63.9%
Total	**100%**	**100%**

Source: CRS calculations using JCT JCX-55-19, Table 3.

[2] Average household size has followed a similar trend. A household includes all individuals living in the same housing unit, whereas a family includes all individuals related by birth, marriage, or adoption who reside together.

deduction. For example, according to Tax Policy Center (TPC) estimates, about 1% of households in the bottom 40% of the income distribution itemized in 2018 compared to 40% of households in the top 20% of the distribution.[3] Second, marginal tax rates increase with income. An individual in the 35% marginal tax bracket who pays $10,000 in mortgage interest would realize a reduction in taxes of $3,500, in comparison to the previous example of an individual in the 24% bracket who realized a $2,400 reduction in taxes. Third, higher-income individuals tend to purchase more expensive homes, which results in larger mortgage interest payments, and hence, larger deductions. These three reasons explain why the benefits of the mortgage interest deduction mostly accrue to upper-income households.

There are limits to the amount of mortgage interest that may be deducted. The limits currently in place were enacted by P.L. 115-97, often referred to as "The Tax Cuts and Jobs Act," or TCJA, and are in effect through 2025. Absent any legislative changes, the rules governing the mortgage interest deduction will revert back to their pre-TCJA status starting in 2026 (discussed below).

For mortgage debt incurred before December 16, 2017, the deduction is limited to the interest on the first $1 million of combined mortgage debt on primary and secondary residences ($500,000 for single filers, head of household filers, or married taxpayers filing separately). For mortgage debt incurred on or after December 16, 2017, the deduction is limited to the interest incurred on the first $750,000 of combined mortgage debt ($375,000 for taxpayers filing as single, head of household, or married filing separately). Mortgage debt resulting from a refinance is treated as having been incurred on the origination date of the original mortgage for purposes of determining which mortgage limit applies.

Under current law, the interest on home equity loans is deductible in two circumstances. First, the loan must be used to finance expenditures related to the home—for example, to remodel a kitchen. This restriction applies regardless of when the original mortgage or home equity loan was originated. Second, the homeowner's combined mortgage debt on their primary and secondary residences, plus the balance on their home equity loan, cannot exceed the applicable loan limit ($1 million or $750,000).[4]

Prior Law

Prior to the TCJA, homeowners were allowed an itemized deduction for the interest paid on the first $1 million of combined mortgage on their primary and secondary residences. Homeowners were also allowed to deduct the interest paid on a home equity loan. However, a separate and additional limit of $100,000 applied to home equity loans, which were defined as debt that was not incurred in the purchase, construction, or substantial improvement of a residence. Thus, a homeowner was permitted to deduct the interest on home equity loans that were used to finance personal expenditures, such as paying for a vacation or a child's college education, in addition to financing home improvements. A homeowner's combined mortgage and home equity debt was capped at $1.1 million.

[3] Tax Policy Center, "T18-0001—Impact on the Number of Itemizers of H.R.1, The Tax Cuts and Jobs Act (TCJA), By Expanded Cash Income Level, 2018," January 11, 2018, https://www.taxpolicycenter.org/model-estimates/impact-itemized-deductions-tax-cuts-and-jobs-act-jan-2018/t18-0001-impact-number.

[4] Determining the applicable loan limit is more complicated when a homeowner has mortgage and home equity debt that is subject to the $1 million limit (i.e., was incurred before December 16, 2017), and then later incurs debt that is subject to the $750,000 limit (i.e., was incurred on or after December 16, 2017). In this case, the older debt that is subject to the $1 million limit counts toward the $750,000 limit for any newer debt.

For more than 70 years, there was no limit on the amount of home mortgage interest that could be deducted.[5] The Tax Reform Act of 1986 (TRA86; P.L. 99-514) eventually restricted the deduction to interest on loans not exceeding a home's purchase price, plus any improvements, and on debt used for qualified medical and educational expenses that was secured by the property. TRA86 also limited the number of homes for which the deduction could be claimed to two. Subsequently, the Omnibus Budget Reconciliation Act of 1987 (P.L. 100-203) introduced the limits that existed prior to the enactment of the TCJA—specifically, the $1 million limitation on combined mortgage for a first and second home, as well as the $100,000 limitation on home equity debt (with no restrictions on use).

Historical Perspective

Although some contend that the mortgage interest deduction's objective is to promote homeownership, this does not appear to be the deduction's original purpose. When laying the framework for the modern federal income tax code in 1913, Congress recognized the importance of allowing for the deduction of expenses incurred in the generation of income, which is consistent with traditional economic theories of income taxation.[6] As a result, all interest payments were made deductible with no distinction made for business, personal, living, or family expenses. It is likely that no distinction was made because most interest payments were business-related expenses at the time and, compared to today, households generally had little debt on which interest payments were required—credit cards had not yet come into existence, and the mortgage finance industry was in its infancy.[7] In addition, the government entities and programs that are commonly associated with the mortgage market today (e.g., Federal Housing Administration [FHA], U.S. Department of Housing and Urban Development [HUD], U.S. Department of Veterans Affairs' [VA] Loan Guaranty Program, Fannie Mae, Freddie Mac, and Ginnie Mae) were not yet created.

International Perspective

The United States is not alone in providing a tax benefit to homeowners with mortgage debt. At least 15 other member countries of the Organisation for Economic Co-operation and Development (OECD) offer some type of tax relief for mortgage payments, with the relief most often in the form of a deduction for mortgage interest.[8] As **Figure 1** shows, homeownership rates among these countries varied considerably in 2018, from a low of 48% in Austria to a high of 78% in Estonia. The U.S. homeownership rate of 63% was five percentage points lower than the average across *all* OECD countries of 68%.[9,10] Noticeably absent from **Figure 1** are several other

[5] U.S. Congress, Senate Committee on the Budget, *Tax Expenditures: Compendium of Background Material on Individual Provisions*, committee print, prepared by Congressional Research Service, 115th Cong., 2nd sess., December 2018, S.Prt 115-28 (Washington: GPO, 2018), pp. 335-341.

[6] Sen. William Borah, *Congressional Record*, August 28, 1913, p. S3832.

[7] For more information on the history of the mortgage market, see Richard K. Green and Susan M. Wachter, "The American Mortgage in Historical and International Context," *The Journal of Economic Perspectives,* vol. 19, no. 4 (Autumn 2005), pp. 93-114; and Kenneth A. Snowden, *Mortgage Banking in the United States, 1870-1940*, Research Institute For Housing America, September 10, 2014.

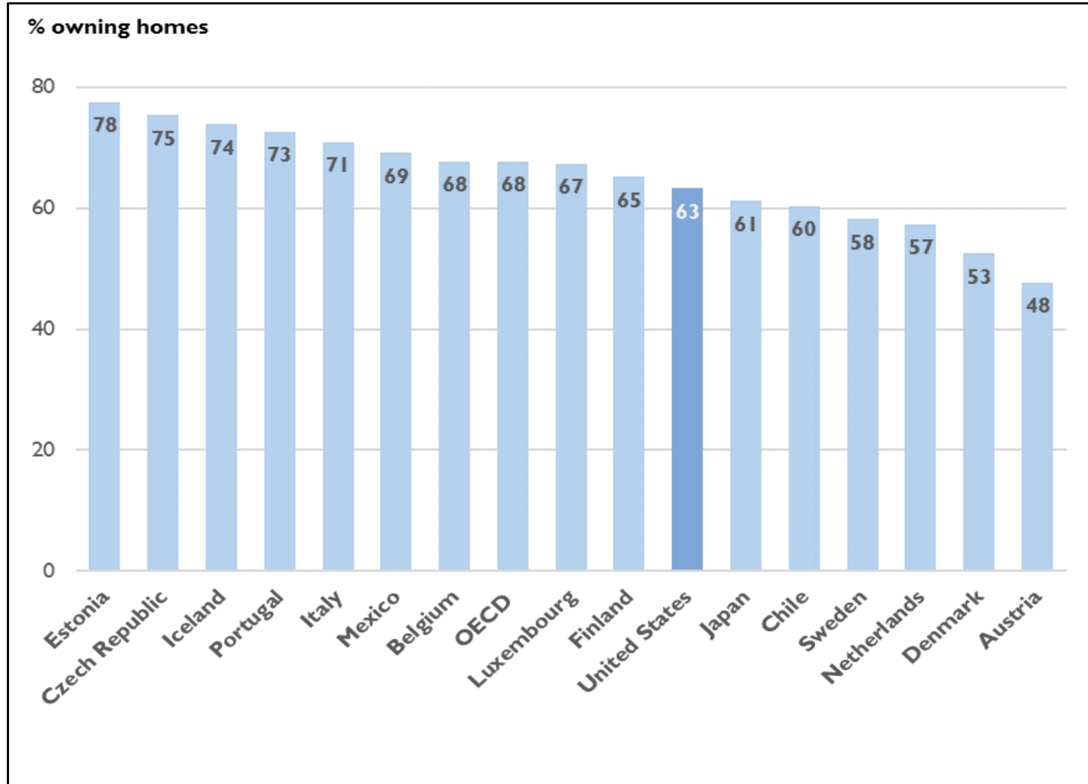
[8] The OECD also found that Russia and Colombia provided deductions for mortgage interest. Neither Russia nor Colombia is a member of the OECD and reliable homeownership rates for both countries could not be located.

[9] The 68% average homeownership rate includes countries with and without a tax subsidy for mortgage interest.

[10] The OECD noted that the Netherlands, when compared to the United States, had more than three times as much in forgone tax revenue as a percentage of GDP as a result of its mortgage interest deduction, though its homeownership

large developed countries with no mortgage interest deduction, specifically Australia (with a homeownership rate of 63%), Canada (68.5%), Germany (43.7%), France (62%), and the United Kingdom (64.7%). Though none of these countries offer a mortgage interest deduction, all but Germany provide other tax subsidies for homeowners.[11]

Figure 1. Homeownership Rates in Selected Countries with a Tax Relief for Mortgage Payments Subsidy, 2018



Source: OECD Affordable Housing Database; e-Stat Portal Site of Official Statistics of Japan, 2018 Housing and Land Survey.

Australia and Canada offer tax-preferred savings opportunities for first-time buyers.[12] Canada also provides a tax credit for first-time buyers equal to 750 Canadian dollars, a tax exemption on capital gains from a home sale, and relief for new homes subject to the Goods and Services Tax (GST) and the Harmonized Sales Tax (HST).[13] France provides exemptions from property and capital gains taxes in certain cases. The United Kingdom provides an exemption from capital gains tax on the sale of a primary residence in addition to relief from the Stamp Duty Land Tax for first-time buyers. Germany differs from these other countries not only because of its rather

rate was lower at 57%.

[11] See **Table B-1** for a brief summary of all countries reviewed by a recent OECD study.

[12] The incentives discussed in this paragraph are national or federal provisions. See **Table B-1** for a summary of regional and local provisions offered in some countries.

[13] Statistics Canada. Table 46-10-0036-0, "Housing indicators, by tenure including first-time homebuyer status," https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=4610003601.

low homeownership rate, but because it currently offers no large-scale federal tax incentives for homeowners.[14]

Although these data provide some perspective on where the United States stands relative to other countries in terms of housing tax policy, determining the effect of countries' policies on homeownership is not a simple task. First and foremost, correlation does not imply causation. Without more information and advanced statistical methods, it is difficult to isolate the influence of a single policy. In some cases, data limitations make it difficult to determine the overall homeownership policy of a country or measure it accurately. In other cases, some countries intend to assist only certain types of potential owners (e.g., lower income), whereas other countries have a more general approach. Finally, countries also differ in terms of their overall economies, mortgage markets, history of military conflicts, demographics, geographic features, and social policies that could have an influence on homeownership rates. The OECD has announced that it will be researching housing tax policies more carefully in forthcoming work.[15]

Analysis of the Rationale for Subsidizing Homeownership

A number of possible rationales for subsidizing homeownership have been put forth. First, high homeownership rates may bestow certain community benefits through higher neighboring property values, lower crime, and higher civic participation, among others. Second, homeownership may promote a more even distribution of income and wealth, as well as establish greater individual financial security. And lastly, homeownership may have a positive effect on living conditions, which can lead to a healthier population. This section provides a review and analysis of these rationales. The analysis presented here is distinct from the analysis of the economic effects of the mortgage interest deduction, which is presented in the subsequent section.

Positive Externalities

Tax benefits for homeowners are most often rationalized on the basis that homeownership generates positive externalities. Positive externalities, also known as spillover benefits, occur when the actions of one individual benefit others in society. Because a given individual will tend to only consider his or her own (private) benefit from an activity, and not the total benefit to society, too little of the positive-externality-generating activity is undertaken from society's perspective. Governments, however, may intervene through the use of taxes and subsidies to align the interests of individuals with the interests of society to achieve a more economically efficient outcome.

An example of a positive externality, often cited by homeownership advocates, is the positive effect ownership is believed to have on property values in a community. The theory is that because homeowners have a larger financial stake in their homes than renters, they are more likely to make investments that support or raise surrounding property values. For example, a homeowner may be more inclined than a renter to paint the exterior of his or her home, fix a

[14] For more information on Germany's housing policy approach, see Alexander Reisenbichler, "A Rocky Path to Homeownership: Why Germany Eliminated Large-Scale Subsidies for Homeowners," *Cityscape*, vol. 18, no. 3 (2016), pp. 283-290; and Michael Voigtländer, "Why is the German Homeownership Rate so Low?" *Housing Studies*, vol. 24, no. 24 (May 2009), pp. 355-372.

[15] Organisation for Economic Co-operation and Development, *Public Policies Towards Affordable Housing*, PH2.2 Tax Relief for Home Ownership, 2019, http://www.oecd.org/els/family/PH2-2-Tax-relief-for-home-ownership.pdf.

hanging gutter, or remove street debris outside his or her house. Although the owner may only be seeking to improve the appearance and resale value of the house, he or she is also positively influencing the values of surrounding properties (the spillover effect).

There is a long list of other externalities that proponents claim homeownership generates. Homeownership is believed by some to create neighborhood stability, because owners are more inclined to remain in the community for a longer period of time than renters. Proponents also associate homeownership with a greater degree of social and political involvement due to the concern about one's property value. Homeownership is also believed by some to lead to lower neighborhood crime. It has also been suggested that homeownership fosters more responsible behavior among youths in the community, such as higher academic achievement and lower teen pregnancy rates, due to a "monitoring" mechanism put in place to maintain the attractiveness of a community.

Economists have been able to establish that a correlation between homeownership and many of these positive neighborhood effects does exist.[16] For example, researchers have found that homeowners are more likely than renters to belong to nonprofessional organizations, know the head of their local school board and U.S. House Representative, vote in local elections, and garden.[17] Investigations into the effects of homeownership on the academic performance of children have revealed statistical evidence of a positive relationship between homeownership and the educational performance of homeowners' children.[18] Homeowners have also been found to move less frequently than renters, which may promote neighborhood stability.[19] And there is some evidence that homeownership rates and surrounding property values are correlated.[20]

Research focusing on causality—that is, determining whether homeownership causes these positive effects—has yielded mixed results.[21] There are a number of reasons for this. First, there may be *observable differences* between owners and renters that, when not accounted for, may lead researchers to false conclusions. For example, it is important for researchers studying the effect of homeownership on children's educational outcomes to account for differences in net worth, mobility, and home location, and not just whether a child's parents are homeowners or renters. This is because these other factors are likely strongly correlated with homeownership and likely have their own independent influence on a child's education. Thus, by not accounting for these observable differences, researchers may attribute the influence of these other factors on a

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[16] For an accessible review of the literature on externalities and other potential social benefits, see William Rohe, Shannon Van Zandt, and George McCarthy, "Social Benefits and Costs of Homeownership: A Critical Assessment of the Research," in *The Affordable Housing Reader*, ed. J. Rosie Tighe and Elizabeth J. Mueller, (New York, NY: Routledge, 2013), pp. 196-210.

[17] Denise DiPasquale and Edward Glaeser, "Incentive and Social Capital: Are Homeowners Better Citizens?" *Journal of Urban Economics*, vol. 45, no. 2 (1999), pp. 354-384.

[18] Richard Green and Michelle White, "Measuring the Benefits of Homeowning: Effects on Children," *Journal of Urban Economics,* vol. 41, no. 3 (1997), pp. 441-461; Donald R. Haurin, Toby L. Parcel, and R. Jean Haurin, "Impact of Homeownership on Child Outcomes," in *Low Income Homeownership: Examining the Unexamined Goal*, ed. Nicholas P. Retsinas and Eric S. Belsky (Washington, DC: Brookings Institution Press, 2002), pp. 427-446.

[19] William Rohe and Leslie Stewart, "Homeownership and Neighborhood Stability," *Housing Policy Debate*, vol. 7, no. 1 (1996), pp. 37-81.

[20] Ibid.

[21] For accessible reviews of the literature on causation, see N. Edward Coulson and Herman Li, "Measuring the external benefits of homeownership," *Journal of Urban Economics*, vol. 77 (September 2013), pp. 57-67; and Donald R. Haurin, Robert D. Dietz, and Bruce A. Weinberg, "The Impact of Neighborhood Homeownership Rates: A Review of the Theoretical and Empirical Literature," *Journal of Housing Research*, vol. 13, no. 2 (2003), pp. 119-151.

child's educational outcome to homeownership, when in fact the relationship between children's educational outcomes and homeownership could be spurious (coincidental).[22]

Second, there may be *unobservable differences* that exist between homeowners and renters that researchers may not be able to account for, which lead them to infer causality when it is not present. For example, certain traits or attitudes may lead some people both to homeownership and community activism. In theory, statistical methods can be employed to overcome the problem of unobservable differences. These methods, however, are typically only reliable if particular assumptions hold. This limitation generates a great deal of debate among researchers as to whether the assumptions hold, and therefore whether the reported results are reliable.

A third problem that researchers commonly face in determining causality is the possible existence of an interaction between homeownership and the positive outcome policymakers wish to promote. One example may be the claim that increased homeownership rates boost neighborhood property values. Determining causality is difficult because homeowners may prefer to purchase homes in neighborhoods where home values are rising. Statistical methods have been developed to determine causation when such interdependence exists. Again, however, particular assumptions must hold for these methods to produce reliable results, generating debate among researchers about findings.

Which housing market and which program researchers are examining can matter. For example, metropolitan real estate markets will naturally be different than the markets in rural parts of the country due to land constraints. But they will also differ because of other factors such as transportation systems, employment opportunities, and zoning laws, among others. The type of homeownership program researchers are investigating to study causation can also be important. Is the program targeting lower-income households or is it providing a general subsidy? Localized studies or ones that examine targeted homeownership assistance programs may not be readily generalizable for nationwide policymaking.

Because of these difficulties, a definitive answer as to whether homeownership produces the purported externalities has eluded economists. This limitation, however, does not mean that homeownership does not result in positive externalities that justify housing subsidies. But it could be argued that determining whether to provide subsidies for homeownership depends on establishing cause and effect. If homeownership does not generate the positive effects some believe it does, then the economic justification for subsidization is diminished.

It has been even more difficult for researchers to determine the magnitude of the purported benefits of homeownership. Without accurate estimates of how large the social benefits are from homeownership, it is difficult to determine the amount of subsidization homeownership should receive. If the social benefits associated with homeownership are small, then the current amount of subsidization (both tax and nontax), which some economists view as substantial, could have the unintended consequence of decreasing, not increasing, economic efficiency. This outcome is especially true if the social returns to other investments, such as education and sectors of the economy outside of housing, are higher than the return to homeownership. In such a situation, reducing housing subsidies would free up resources for these more socially valuable investments.

[22] The statistical terminology that is used for this type of estimation error is *omitted variable bias*. When important variables are omitted from an analysis, the estimates of the importance of the variables that are included in the analysis may be biased or over/understated. Not accounting for observable differences may be due to data limitations. For example, a survey that collects information on homeownership status and children's educational attainment may not collect information on household wealth. So although wealth is observable, it cannot be controlled for because it is not a focus of the survey being used.

Often absent from the debate over the existence of positive externalities is the possibility that homeownership results in negative externalities. Negative externalities occur when the actions of one individual impose a cost on others in society. On the one hand, a higher concentration of homeowners may result in increased property values. On the other hand, the opposite may be true at times. If enough homeowners in a given community default and are foreclosed upon, the effect could be to reduce the value of surrounding properties in the neighborhood. This, in turn, could lead to more defaults and foreclosures, which reinforces the downward pressure on surrounding home values. In effect, the community's "portfolio" of homeowners and renters is undiversified, so that a negative economic shock to a small group of homeowners can be transmitted to a larger group.

Homeownership may also result in less-than-desirable social and community involvement.[23] The same incentive that is believed to lead homeowners to make investments that raise surrounding property values—mainly homeowners' financial stake in their property—may also lead homeowners to push for local initiatives that exclude certain groups of people from their communities. Zoning restrictions, for example, may be supported by homeowners if restrictions prevent the construction of low-income rental housing that homeowners fear could impact their property values.

Even if the positive externalities outweigh the negative externalities, economic theory still suggests that subsidizing homeownership to generate socially desirable outcomes may not be the most efficient remedy. If landscaping, painting, and other exterior investments increase surrounding properties' values, it is not clear why subsidizing homeownership to generate this result is the ideal method. Theories of public finance and externalities suggest that a more efficient policy would be to subsidize the externality-generating activity directly. The government could offer a tax credit, deduction, or voucher for painting or landscaping one's house, for example. Renters and owners alike could then benefit from the incentive while producing the desired result—higher property values from more aesthetically pleasing neighborhoods. Directly subsidizing socially beneficial investment in one's home could also be more cost effective than indirect subsidization via homeownership incentives.

Financial Benefits

Some contend that homeownership promotes economic equality. Data reveal that homeowners typically earn higher incomes and have higher net worths than renters.[24] In general, homeowners also have greater access to wealth via their home's equity, which can be used to finance discretionary and emergency spending. In addition, homeowners may have greater access to credit to borrow for such things as a child's education, which can increase the child's income, and, in turn, increase his or her ability to become a homeowner. Thus, because of these possible positive correlations, promoting ownership may be a tool used to achieve a more even distribution of income and wealth within and across generations.

Again, economists confront the issue of distinguishing causation from correlation. Does homeownership positively influence one's income and wealth, or is the relationship reversed, and higher-income and wealthier households are more inclined to become homeowners because they

[23] See William Rohe, Shannon Van Zandt, and George McCarthy, "Social Benefits and Costs of Homeownership: A Critical Assessment of the Research," in *The Affordable Housing Reader*, ed. J. Rosie Tighe and Elizabeth J. Mueller, (New York, NY: Routledge, 2013), pp. 196-210.

[24] For data on housing tenure status and net worth (excluding home equity), see U.S. Census Bureau, "Survey of Income and Program Participation, 2014 Panel, Wave 4." For data on housing tenure status and income, see U.S. Census Bureau, "American Housing Survey, 2017."

have the resources to do so? Likewise, there may be some intergenerational wealth transmission mechanism that homeownership helps facilitate, but it could also be that higher-income and wealthier households, regardless of ownership status, have the financial means to invest more in their children's education. If this is the case, more effective investment in education may be a more economically efficient way to achieve equitable distributions of income and wealth, and could be funded by repealing subsidies targeted toward homeowners.

Are Renters "Throwing Money Away"?

There is a perception among some renters that they are just "throwing money away," or transferring money for shelter to landlords that, if the renters were homeowners, would allow them to build equity. Whether owning is better than renting, from a purely financial perspective, depends on a number of circumstances, such as home prices, rental rates, interest rates, and how long one plans to remain in the same home. It is also crucial to understand the economic nature of a home and what it provides renters compared to what it provides owners.

A home is unique from most other items individuals purchase, because it is a combination of two different things. First, it is a consumption good that provides its occupants with housing services, such as a place to eat, sleep, and relax. Second, a home is an investment asset, which, like other investments, can either increase or decrease in value depending on market conditions.

The rental payments on a home will often be cheaper than the payments on a new mortgage for a comparable property. One reason for this is because a renter is only paying for the service component of the home; a renter does not stand to gain if the home increases in value, just as they are not at risk if the home decreases in value. Another reason is because landlords are likely to have been repaying the mortgage for a number of years. Thus, rents do not need to be as high as to cover a new mortgage.

Looked at from another perspective, a renter is not "throwing away" money any more than a new homeowner is with the interest portion of their mortgage payment. For approximately the first 15 years of a 30-year fixed rate mortgage, the majority of an owner's mortgage payment goes toward interest costs, which provide no financial benefit to the owner; they are strictly compensation paid to the lender for lending the money to buy a house. Factor in the costs of maintaining a property and the fact that younger (first-time) buyers often move within 10 years, which results in transactions costs (realtor fees and closing costs), and renting can be a wise financial decision under the right circumstances, just as owning can be the right financial decision under the right circumstances.[25]

Homeownership is also often viewed as a way to promote the accumulation of an individual nest egg. As long as home prices are stable or increasing, a homeowner, as opposed to a renter, automatically builds his or her net wealth (equity) with each successive mortgage payment.[26] Home equity can be used to make improvements to the house, finance college expenses, or be converted into income for retirement later in life, among other things.[27] Homeownership also provides an opportunity to build or improve credit scores. As a result, a homeowner may have access to cheaper credit than a renter.

Encouraging homeownership as a means of saving carries with it certain risks that policymakers and potential homeowners may want to consider. First, it is not clear that the financial return to homeownership is as high or as predictable as some believe. There is evidence that returns to homeownership are, on average, lower for lower-income and minority owners, who are often the

[25] National Association of Realtors, *2019 Home Buyers and Sellers Generational Trends Report*, April 2019, p. 44, https://www.nar.realtor/research-and-statistics/research-reports/home-buyer-and-seller-generational-trends.

[26] A homeowner's equity is equal to the market price of their home minus their outstanding mortgage balance. Conceptually, a homeowner's equity is how much money they would receive if they sold their home and paid off any outstanding mortgage debt.

[27] The conversion of equity to income for retirement is often carried out using a "reverse mortgage." For more information, see CRS Report R44128, *HUD's Reverse Mortgage Insurance Program: Home Equity Conversion Mortgages*, by Libby Perl.

groups housing advocates strive to help.[28] Though there is some past evidence that homes in lower-income markets may experience greater home appreciation relative to homes in higher-income markets, it is not clear whether this evidence still holds in the era following the Great Recession.[29] Additionally, there is evidence that lower-income households are less likely than higher-income households to claim the mortgage interest and property tax deductions, are more likely to pay higher mortgage interest rates, and spend less on maintaining their homes—all behaviors which should lower their return to homeownership.[30] There are also differences across regional markets that should be taken into account with a home that are not present with other assets. Like all investments, the financial return to homeownership depends on market conditions at the time the home is bought and sold and the expected return from alternative investments. Instead of purchasing a home, an individual could invest down-payment funds in financial instruments, such as stocks and bonds.

Second, policies that promote homeownership may result in households holding relatively undiversified portfolios. To minimize risk, economists say households should hold a portfolio containing a wide range of assets. Returns should not be too closely related, so that as the return to some assets in the portfolio falls, others assets' returns rise. A home, however, is an inherently large and practically indivisible asset. For most homeowners, their house is typically the largest asset in their portfolio. Committing such a large fraction of one's portfolio to a single asset can complicate diversification.

Also complicating diversification is the combination of a home with an individual's other largest asset, his or her human capital, the return to which is labor income (i.e., wages). The housing boom and bust that preceded the Great Recession showed that the return to housing and the labor income of some workers may be closely correlated. Areas with high unemployment also suffered high foreclosure rates, which had a downward reinforcing effect on home prices. Thus, from a portfolio perspective, homeownership may not be a financially prudent decision for all Americans.

Third, unlike most other assets in the typical household's portfolio, a home purchase is often financed using a substantial amount of debt. This increases the homeowner's exposure to fluctuations in home prices, because mortgage debt amplifies changes in an owner's equity in response to a given price change. If prices fall enough, an individual can end up owing more on their house than it is worth—a scenario referred to as having negative equity, or being "underwater" on the mortgage. Selling a house also requires the owner to incur significant transaction costs, implying that a house is an illiquid asset, which further increases risk.

Psychological and Physical Health Benefits

It is possible that homeownership bestows certain benefits exclusively to individual homeowners, including improved psychological well-being. The pride associated with owning one's home could lead to higher levels of self-esteem and overall life satisfaction. Self-esteem and satisfaction could also be lifted by the pleasure one takes in maintaining and improving his or her property. Homeownership could also promote a sense of individual security, stability, and control, leading

[28] Tom Mayock and Rachel Spritzer Malacrida, "Socioeconomic and racial disparities in the financial returns to homeownership," *Regional Science and Urban Economics*, vol. 70 (2018), pp. 80-96.

[29] See, for example, Nicolas P. Retsinas and Eric S. Belsky, ed., *Low-Income Homeownership: Examining the Unexamined Goal*, (Brookings Institution Press, 2002), pp. 208-256.

[30] Eric S. Belsky, Nicolas P. Retsinas, and Mark Duda, *The Financial Returns to Low-Income Homeownership*, Joint Center for Housing Studies of Harvard University, Cambridge, MA, September 2005.

to less stress than being a renter. For some, the greater space associated with homeownership provides solace and, perhaps, some protection in the face of Coronavirus Disease 2019 (COVID-19).

Yet, as the housing downturn surrounding the Great Recession and the general angst associated with the COVID-19 pandemic have made clear, homeownership can also produce the opposite feelings if it becomes a struggle to make mortgage payments. A similar type of distress may be experienced by those who own property destroyed by natural disasters.[31]

In addition to the psychological benefits, some also point to the possible physical health benefits associated with homeownership.[32] Homeownership may provide higher-quality living conditions that lead owners to be, in general, physically healthier than renters. Homeownership may also allow households to better cope with unforeseen health events by allowing homeowners to draw on their home's equity when faced with unexpected health costs. Nevertheless, how exactly homeownership impacts health outcomes has not been answered by researchers.

Researchers studying the psychological and health benefits of homeownership have encountered the same problems as those studying homeownership externalities—primarily, distinguishing causation from correlation.[33] Additionally, if homeownership produces benefits that accrue to individual homeowners and not more broadly to society, then widespread homeownership subsidy programs may be unwarranted. Economic theory generally predicts that when only private benefits exist (i.e., there are no externalities), the market will tend to allocate resources most efficiently. At the same time, one could argue that individual health and well-being are fundamental features of a prosperous society, and if owning a home contributes to one's health, society should subsidize homeownership.

Economic Analysis of the Deduction

When weighing subsidies for homeowners, policymakers may consider not only the economic effects of homeownership, but also the effects of the mortgage interest deduction on housing decisions and the economy more broadly. In particular, does the mortgage interest deduction increase homeownership, as some argue? How does the deduction affect other dimensions of homeownership, such as the quality and size of homes taxpayers purchase? And how does subsidizing owner-occupied housing affect the performance of the overall economy? This section analyzes these questions in turn.

Effect on Homeownership

To have a significant impact on the homeownership rate, housing subsidies must address the barriers that households that are on the verge of homeownership face. Economists have identified

[31] The impact of homeownership on mental health is likely situational and does not necessarily have to be positive or negative. Homeownership could have no meaningful impact on mental health for certain individuals or groups. See Emma Baker, Rebecca Bentley, and Kate Mason, "The Mental Health Effects of Housing Tenure: Causal or Compositional?" *Urban Studies*, vol. 50, no. 2 (February 2013), pp. 426-442.

[32] See William Rohe, Shannon Van Zandt, and George McCarthy, "Social Benefits and Costs of Homeownership," in *Low-Income Homeownership*, ed. Nicolas P. Retsinas and Eric S. Belsky (Washington, DC: Brookings Institution Press, 2002), pp. 388-390; and Lawrence Yun and Nadia Evangelou, "The Social Benefits of Homeownership and Stable Housing," The Journal of The Center for Real Estate Studies, vol. 5, no. 1 (December 2016), pp. 5-19.

[33] Peter H. Rossi and Eleanor Weber, "The Social Benefits of Homeownerships: Empirical Evidence from National Surveys," *Housing Policy Debate*, vol. 7, no. 1 (1996), pp. 1-35.

the high transaction costs associated with a home purchase—mostly resulting from the down-payment requirement, but also closing costs—as the primary barrier to homeownership.[34] Household income has also been found to influence the home-buying decision, although its effect on the decision to become a homeowner is smaller than the ability to finance a down payment. This finding is likely because those seriously considering making the transition from renting to ownership already have income that is sufficient to cover mortgage payments, as demonstrated by their ability to pay rent.

Because the mortgage interest deduction does not lower the primary barrier to homeownership, its effect on the homeownership rate may be small. Though the deduction lowers the annual cost of homeownership, it does not provide any upfront benefit that can assist in completing a home purchase. Instead, the deduction enables homeowners to have a greater after-tax income than they would otherwise. This may have an important effect on another aspect of homeownership, particularly the size of homes taxpayers purchase. In contrast, the ability of buyers to obtain private mortgages that are insured by the Federal Housing Administration (FHA) may have a more meaningful impact on homeownership because an FHA-insured mortgage can lower the required down payment to as low as 3.5% of the purchase price.[35] A similar option is available to veterans via the U.S. Department of Veterans Affairs' (VA) Loan Guaranty Program, which enables qualifying veterans to obtain private mortgages with zero down payment.[36]

The deduction's effect on homeownership is also likely limited because it is not well targeted toward the group of potential homebuyers most in need of assistance—lower-income households. This group includes younger potential first-time buyers, who have difficulty accumulating funds for a down payment. Homeowners must itemize their deductions when filing their tax returns to benefit from the deduction. Historically, lower-income households have itemized their tax returns at an extremely low rate. The itemization rate among all households is currently much lower than in the past (10.9% in 2018 compared to 30.6% in 2017) due to the TCJA (P.L. 115-97), which nearly doubled the standard deduction.[37] This has caused the number of itemizing households to become more concentrated at the upper end of the income distribution than in the past. Thus, fewer households benefit from the mortgage interest deduction, and even fewer lower-income households do so.

Even before the TCJA reduced the itemization rate, not all homeowners claimed the mortgage interest deduction. Some homeowners have no mortgage, and hence no interest to deduct. Those with a mortgage who did not claim the deduction likely did not claim it because (1) they were

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[34] See, for example, Laurie Goodman, et al., *Barriers to Accessing Homeownership: Down Payment, Credit, and Affordability*, Urban Institute, September 2018; Peter D. Linneman and Susan M. Wachter, "The Impacts of Borrowing Constraints," *Journal of the American Real Estate and Urban Economics Association*, vol. 17, no. 4 (Winter 1989), pp. 389-402; Donald R. Haurin, Patrick H. Hendershott, and Susan M. Wachter, "Borrowing Constraints and the Tenure Choice of Young Households," *Journal of Housing Research*, vol. 8, no. 2 (1997), pp. 137-154; and Mathew Chambers, Carlos Garriga, and Donald Schlagenhauf, "Accounting for Changes in the Homeownership Rate," *International Economic Review*, vol. 50, no. 3 (August 2009), pp. 677-726.

[35] For more on FHA-insured mortgages, see CRS Report RS20530, *FHA-Insured Home Loans: An Overview*, by Katie Jones.

[36] For more information on the VA Loan Guaranty Program, see CRS Report R42504, *VA Housing: Guaranteed Loans, Direct Loans, and Specially Adapted Housing Grants*, by Libby Perl.

[37] Internal Revenue Service, "Statistics of Income Division, Publication 1304," Table 1.2, September 2019, https://www.irs.gov/pub/irs-soi/17in12ms.xls; and Tax Policy Center, "T18-0001 - Impact on the Number of Itemizers of H.R.1, The Tax Cuts and Jobs Act (TCJA), By Expanded Cash Income Level, 2018," January 11, 2018, https://www.taxpolicycenter.org/model-estimates/impact-itemized-deductions-tax-cuts-and-jobs-act-jan-2018/t18-0001-impact-number.

toward the end of their mortgage payments, so that the deduction was not worth much; (2) they lived in a state with low state and local taxes and thus claimed the standard deduction; or (3) they lived in a low-cost area and therefore had a relatively small mortgage.

In the end, determining the mortgage interest deduction's effect on the homeownership rate is an empirical question. Researchers may be able to exploit recent changes made by the TCJA to isolate the deduction's effect on homeownership, but it will likely be a few years before they can do so because of lags in data releases and the fact that discernable changes to the homeownership rate may take time to occur. Some early empirical research that looked at homeownership from 1944 to 1974 suggested that the mortgage interest deduction positively impacted the homeownership rate; however, subsequent empirical research called those findings into question.[38] More recent quantitative theoretical modeling has suggested that removing the deduction could *increase* the homeownership rate. The results of these models stem from a number of plausible changes in the economy that could occur in response to removal of the deduction. Specifically, rents could increase as renting initially becomes more attractive; mortgage rates could decrease as households save for larger down payments; Congress may reduce marginal tax rates, assuming the policy change is revenue neutral; and home prices could decrease to the extent that the deduction is capitalized, or priced, into home prices.[39]

Effect on Housing Consumption

The mortgage interest deduction may influence the size of homes that buyers purchase in addition to, or instead of, increasing homeownership. The deduction increases the after-tax income of households who claim it, allowing these owners to afford a larger mortgage payment, which can be used to purchase a larger home. In essence, the mortgage interest deduction lowers the effective annual price of homeownership, and the law of demand states that individuals will tend to consume more of a good or service when its price falls. Because the deduction does not lower the down-payment barrier, the other dimension across which housing consumption can increase is home size.

The degree to which the mortgage interest deduction is capitalized into home prices, however, would limit its effect on housing consumption. The ability to afford a larger mortgage because of the deduction does not necessarily mean that larger mortgages are being used to finance larger homes; it could be that larger mortgages are being used to finance homes with prices that have been bid up higher than they would have been otherwise. In theory, the disincentive provided by higher prices to purchase more home could be such that it exactly offsets the incentive provided by the deduction. In this case, there would be no effect on housing consumption.

If tax policy does affect home size, it may also affect land use, energy use, and transportation. Larger homes generally require more land on which to be built, which, in densely populated areas, is typically found the farthest away from employment opportunities. The increased commuting distance may lead to greater carbon emissions. Traffic congestion may also increase if the transportation infrastructure is not enhanced to support the transition outward. And if

[38] Harvey S. Rosen and Kenneth T. Rosen, "Federal Taxes and Homeownership: Evidence from Time Series," *The Journal of Political Economy*, vol. 88, no. 1 (February 1980), pp. 59-75; and Edward Glaeser and Jesse Sharpiro, "The Benefits of the Home Mortgage Interest Deduction," *Tax Policy and the Economy*, vol. 17 (2003), pp. 37-82.

[39] Kamila Sommer and Paul Sullivan, "Implications of US Tax Policy for House Prices, Rents," *American Economic Review,* vol. 108, no. 2 (February 2018), pp. 241-274; and Matthew Chambers, Matthew Chambers, and Don Schlagenhauf, "Housing Policy and the Progressivity of Income Taxation," *Journal of Monetary Economics*, vol. 56, no. 8 (November 2009), pp. 1116-1134.

taxpayers are building homes larger than they would otherwise, energy use may also increase, as larger homes generally require more energy to heat and cool.

Looking back, the mortgage interest deduction may have exerted a larger effect on housing consumption (both the homeownership rate and the size of homes) during the housing boom preceding the Great Recession than it historically has. Some homebuyers used mortgage products that required very low or interest-only payments, such as an interest-only adjustable rate mortgage (ARM). When home prices are rising and interest rates are low, these products can be attractive because the homeowner can refinance into a traditional mortgage before the interest-only period is over. They can also be attractive because the whole interest payment can be deducted due to the mortgage interest deduction, which frees up income for a larger mortgage payment. Yet home prices do not always rise. Some of these borrowers were unable to refinance, because prices fell to the point that their homes were worth less than what they owed in mortgage debt.

Effects on the Economy

Whether the mortgage interest deduction has positive or negative effects on the economy depends on a number of factors. To have a net positive effect on the economy, it is necessary that the deduction increases homeownership *and* that homeownership generates positive externalities, such as those discussed previously.[40] If this occurs, the deduction can assist in directing more capital and labor to the housing sector, where it would be expected to generate a higher social return and increase economic efficiency. There is some skepticism among economists, however, that the mortgage interest deduction impacts the homeownership rate. In that case, improving the economy by capturing the positive externalities generated by homeownership, to the extent they exist, would more likely be accomplished through more effective homeownership promotion policies.

Even when the economy is performing well, the mortgage interest deduction could potentially be inhibiting the economy's long-run performance. If there are no externalities or market failures associated with homeownership, then providing preferential tax treatment to homeowners causes capital and labor to be diverted away from more productive uses in the nonhousing sectors of the economy. The same result occurs if homeownership produces externalities, but the level of subsidization is greater than the external benefits produced. Although homeownership is often claimed to generate positive externalities, such benefits have not been definitively measured; nor is there necessarily reason to believe that they justify such significant subsidies. Reducing the amount of tax preferences available to homeowners could also improve the economy's performance through its impact on the budget by requiring less reliance on deficits to finance spending. Large and persistent deficits can eventually lead to higher interest rates, which can result in lower rates of capital formation, a critical source of economic growth.

Even if the mortgage interest deduction increases homeownership, there may be adverse consequence for the economy in the short run if it weakens. Most economic recoveries are characterized by an elevated unemployment rate. The more quickly workers can transition from the weaker sectors of the economy to the stronger sectors, the more quickly the economy can recover. Homeownership can slow this transition because it reduces the ability of workers to move. For example, if a specific region is hit particularly hard by a downturn, then unemployed homeowners may first have to sell their houses in order to accept a job somewhere else in the

[40] A positive net return requires that the resources directed toward housing as a result of the deduction could not have been more productively deployed elsewhere in the economy. That is, the net return accounts for the opportunity cost of resources.

country. This may be infeasible if the worker is unable or unwilling to sell his or her home. A renter, however, would at most be required to pay the remaining rent on a lease before moving and could therefore be expected to transition to another form of employment or location more quickly than a homeowner.

A combination of mortgage market innovations, loose lending standards, low interest rates, and market psychology appears to have been the primary driver of the run-up in home prices that preceded the 2007-2008 financial crisis and ensuing Great Recession. But housing tax policy may have reinforced these factors, making the economic expansion and subsequent contraction more acute than it otherwise would have been. For example, the ability to deduct the interest on exotic mortgage products and, separately, the interest on home equity loans may have reinforced the ability to withdraw equity to increase housing-related and non-housing-related consumption. More homeowners and larger home purchases required increasing levels of capital and labor from other areas of the economy. In 2005, *The Economist* estimated that housing-related sectors were responsible for over 40% of all private-sector jobs created since 2001.[41]

Looking Toward 2025

Absent any legislative changes, the temporary modifications to the mortgage interest deduction limits enacted by the TCJA (P.L. 115-97) will expire after 2025. In addition to extending these temporary changes or allowing them to expire, Congress could choose to pursue a number of other options that have historically been part of the debate over the mortgage interest deduction.

Eliminate the Deduction

One possible option would be to eliminate the mortgage interest deduction, either abruptly or gradually over time. If elimination of the deduction were gradually phased in, any negative consequences for the economy and housing market could potentially be mitigated. Housing researchers Steven Bourassa and William Grigsby propose eliminating the deduction over a 15- to 20-year period with a fixed date after which the deduction would no longer be available.[42] For example, if January 1, 2026, were chosen as the date at which the elimination would be phased in, taxpayers who bought a home in 2026 could claim the deductions for 20 years, buyers in 2027 could claim the deduction for 19 years, and so on. The phase-in would work in the same manner if it were to occur over a longer period, say 30 years. Bourassa and Grigsby postulate that there would be no effect on home demand or prices, although no modeling is done to complement their proposal. It is possible that gradually eliminating the deduction could simply delay the negative short-term consequences for the economy and housing market. This could happen if households do not anticipate the full effects of the deductions' elimination until closer to the chosen cutoff date.

Further Limit the Deduction

Continuing in the same direction as TCJA, the deduction could be further limited. For example, the combined maximum mortgage limit could be reduced. Additionally, the ability to deduct

[41] "The Global Housing Boom," *The Economist*, June 18, 2005, p. 66.

[42] This idea was proposed by economists Steven Bourassa and William Grigsby. See Steven C. Bourassa and William G. Grigsby, "Income Tax Concessions for Owner-Occupied," *Housing Policy Debate*, vol. 11, no. 3 (2000), pp. 521-546.

interest on second homes could be eliminated. Another option would be to leave the combined mortgage limits unchanged, but limit the amount of interest that could be deducted. For example, the deduction could be modified so that the maximum tax rate that applied when claiming the deduction would be no higher than 22%. The deduction could also be limited to those homeowners below a certain income threshold. Currently, the deduction is available to homeowners of all income limits, although after 2025 there are some restrictions based on income as a result of an overall limitation on the amount of itemized deductions (the "Pease limitation").

Replace the Deduction with a Credit

The mortgage interest deduction could be replaced with a tax credit. The deduction currently tends to provide a proportionally bigger benefit in terms of tax savings to higher-income homeowners, because they buy more expensive homes and are subject to higher marginal tax rates. The requirement that homeowners itemize their deductions on their tax returns also limits the number of owners who receive the tax benefit. A tax credit for mortgage interest could provide a benefit to more homeowners because itemization would no longer be required. Depending on the credit's design, it could create a more consistent rate of subsidization across homeowners. Making the tax credit refundable would serve to make it better targeted to lower-income homeowners.

Refundable credits, as opposed to nonrefundable credits, can reduce an individual's tax liability below zero. This means that the ability to benefit from a refundable credit is not limited by the extent to which an individual owes taxes, which lower-income households may not. For example, if a lower-income household were to have a $500 income tax liability, but also have a $1,500 refundable tax credit, the credit would reduce their tax liability to zero and they would receive the remaining value of the tax credit ($1,000) as a refund from Treasury. In contrast, if the tax credit were nonrefundable, the household could use the $1,500 tax credit to reduce their tax liability to zero, but would not receive any additional benefit.

Appendix A. Other Tax and Nontax Benefits

Exclusion of Capital Gains

The exclusion of capital gains from the sale of a principal residence, and not the mortgage interest deduction, is currently the largest tax benefit available to homeowners. A capital gain is realized when the sales price of a home exceeds the original cost of the home plus improvements. In general, a capital gain on the sale of a principal residence of up to $250,000 for single taxpayers, and $500,000 for married taxpayers filing jointly, may be excluded from taxable income. The capital gains exclusion likely has a rather small, if any, effect on the homeownership rate. This is due to the fact that the exclusion's benefit cannot be realized until a taxpayer sells a house, but the main barrier to homeownership is the upfront down payment. The tax treatment of capital gains on housing may have important effects on other aspects of the economy, such as the allocation of capital and the mobility of workers. The JCT has estimated that the exclusion will cost the federal government $37.4 billion annually in foregone revenue between 2019 and 2023.[43]

Deduction of Property Taxes

Certain homeowners also benefit from the ability to deduct state and local property taxes. Homeowners who itemize their tax deductions, rather than claim the standard deduction, are allowed a deduction for state and local taxes (SALT) paid up to $10,000.[44] The SALT deduction and the associated limit applies to the combined amount of state and local income taxes, as well as property taxes. The $10,000 limit is relatively new and was enacted as part of the TCJA starting in 2018. It is set to expire after 2025, at which point, barring legislative action, the SALT deduction will revert to prior law, which generally allowed a taxpayer to deduct the full amount of state and local income and property taxes paid.

Smaller or Temporary Tax Benefits

The exemption for interest on mortgage revenue bonds (MRBs) is a relatively small tax incentive benefiting owner-occupied housing. The exemption allows MRBs to finance below-market-rate mortgages for potential homebuyers who meet certain criteria.

Two other tax benefits stemming from the Great Recession have been extended a number of times, including most recently through 2020 by the Further Consolidated Appropriations Act, 2020 (P.L. 116-94). The first is the deduction for qualified mortgage insurance premiums. Lenders often require mortgage borrowers to obtain insurance to protect the lender against the borrower defaulting on the loan. Allowing homeowners to deduct the premiums paid on this insurance lowers the cost of homeownership. The deduction first became available in 2007 as a result of the Tax Relief and Health Care Act of 2006 (P.L. 109-432).

The second benefit is exclusion of forgiven mortgage debt. Historically, when an individual is granted debt forgiveness by a lender—be it credit card debt, a car loan, etc.—they must include the forgiven debt as part of their taxable income. The provision allows qualified homeowners to exclude forgiven mortgage income from their taxable income. The exclusion first became

[43] CRS calculations using estimates reported in U.S. Congress, Joint Committee on Taxation, *Estimates of Federal Tax Expenditures for Fiscal Years 2019-2023*, 116th Cong., 1st sess., December 18, 2019, JCX-55-19.

[44] For more information, see CRS Report R46246, *The SALT Cap: Overview and Analysis*, by Grant A. Driessen and Joseph S. Hughes.

available with the enactment of the Mortgage Forgiveness Debt Relief Act of 2007 (P.L. 110-142), which was enacted in response to elevated mortgage default rates.

Imputed Rental Income

A rather abstract tax benefit that homeowners receive, but one which is well known in the academic community, is the exclusion of imputed rental income. The exclusion is not in statute and, therefore, there is no official revenue score. To understand imputed rental income, consider that a homeowner is effectively both a rental property owner and a tenant (renter)—they own a home which they choose to rent to themselves instead of to someone else. Economic theories of taxation suggest that homeowners and rental property owners should therefore be taxed similarly. Currently, they are not. Rental property owners are taxed on their net rental income, which is their rental income after deducting the costs they incur in generating this income—mainly mortgage interest, taxes, insurance, maintenance, and depreciation. Homeowners, however, are allowed to deduct mortgage interest and taxes without having to pay taxes on the "rent" they pay themselves. This creates an asymmetry in the tax treatment of (imputed) income, which is not taxed, and the costs of a mortgage and taxes, which are still deductible. Thus, in this regard, owner-occupied housing is subsidized relative to rental housing.

Non-Tax-Related Benefits

In addition to the numerous tax benefits that exist for homeowners, there are also a number of non-tax-related programs that either directly or indirectly assist homeowners. For example, homeownership is also subsidized through federal programs that insure lenders against losses on home loans, which lowers the down payment homebuyers must make and can make mortgages more affordable (FHA, VA, and USDA); through certain federal or federally chartered financial institutions that assist in maintaining a viable secondary market for mortgages, which enables mortgage financing to be more readily available (Fannie Mae, Freddie Mac, and Ginnie Mae); by the favorable treatment of certain lending institutions that provide liquidity to make home loans (Federal Home Loan Banks); by establishing a program within HUD that funds agencies that counsel prospective buyers on becoming homeowners and current homeowners on avoiding foreclose, as well as providing other types of housing counseling; and by funding grant programs that can be used to provide down payment and closing cost assistance to some homebuyers.[45]

[45] For more information about these programs, see the following reports: CRS Report R42995, *An Overview of the Housing Finance System in the United States*, by N. Eric Weiss and Katie Jones; CRS Report RS20530, *FHA-Insured Home Loans: An Overview*, by Katie Jones; CRS Report R42504, *VA Housing: Guaranteed Loans, Direct Loans, and Specially Adapted Housing Grants*, by Libby Perl; and CRS Report RL34591, *Overview of Federal Housing Assistance Programs and Policy*, by Maggie McCarty, Libby Perl, and Katie Jones.

Appendix B. Tax Relief Supporting Homeownership in Select Countries, 2019

Table B-1. Overview of Tax Relief Supporting Homeownership in Select Countries, 2019

Country	Measure name	Description	Income threshold	Other eligibility criteria	Type of aid	Responsible administration level
Australia	First Home Saver Scheme (Australian Government)	The First Home Super Saver Scheme (FHSSS) aims to help first-home buyers boost their savings for a first home purchase by allowing them to build a deposit inside their superannuation, by making additional voluntary contributions to their superannuation account.	No	First-time buyer holding a First Home Savers account	Preferential taxation of savings	National/Federal
Australia[a]	First Home - First Home Buyer Assistance Scheme (New South Wales Government)	The scheme provides first-home buyers in New South Wales with exemptions from transfer duty on new and existing homes valued up to AUD 650,000, and sliding-scale concessions for up to AUD 800,000. Corresponding provisions are available for residential land purchase up to AUD 350,000 and for between AUD 350,000 and AUD 450,000.	No	First-time buyer. Must occupy the home within 12 months and live in the home for a continuous period of at least 6 months.	One-off tax relief for home buyers	Regional/State
Austria	Tax relief *Topfsonderausgaben*	Tax deduction of mortgage interest payments and of expenses incurred for the construction or regeneration of housing	Yes	Conditions related to the dwelling size/value	Tax relief for mortgage payments	National/Federal
Belgium[b]	Integrated housing bonus tax system *(Geïntegreerde Woonbonus)* (Flemish region)	The three systems relating to tax credits for owner-occupied housing (regional housing bonus, tax credit for long-term savings, and tax credit for standard interest) have been grouped together in one system: the integrated housing bonus.	No	It applies to mortgage loans raised as from January 2016. Prior to this date, the previous housing bonus system is applicable.	Tax relief for mortgage payments	Regional/State

Country	Measure name	Description	Income threshold	Other eligibility criteria	Type of aid	Responsible administration level
Belgium[b]	Housing cheque *(Chèque habitat)* (Walloon region)	Mortgage loans raised as from 1 January 2016 to acquire owner-occupied housing are entitled to the "Chèque-Habitat" tax credit in the Walloon Region. The basic amount of the tax credit depends on the taxpayer's net taxable income and household composition.	Yes	Conditions related to the dwelling size/value	One-off tax relief for home buyers	Regional/State
Belgium[b]	Regional housing bonus *(Bonus logement régional)*	The regional housing bonus applies to interest on loans, capital repayments, or life insurance premiums assigned to the reinstatement of the mortgage loans and outstanding balance insurance premiums. (NB: The regional housing bonus has been abolished.)	No	The regional housing bonus was applicable for loans contracted in 2015 and 2016.	Tax relief for mortgage payments	Regional/State
Canada	First-Time Home Buyers' Tax Credit	Nonrefundable federal tax credit, up to CAD 750	No	First-time home buyer	One-off tax relief for home buyers	National/Federal
Canada	Home Buyers' Plan	The Home Buyers' Plan (HBP) assists first-time home buyers by allowing them to withdraw up to CAD 25,000 from a Registered Retirement Savings Plan (RRSP) to purchase or build a home. Unlike ordinary RRSP withdrawals, HBP withdrawals are not included in income for tax purposes. Amounts withdrawn must be repaid within a 15-year period.	No	Reserved for first-time buyers, with some exceptions (persons with a disability or their relatives buying or building a qualifying home).	Preferential taxation of savings	National/Federal
Canada	GST/HST New Housing Rebate	Tax rebate available for new homes, materials to build homes, and certain renovations	No	The dwelling fair market value at the time of purchase or upon completion of the renovations cannot exceed CAD 450,000. If the rebate concerns the purchase of a new home, it is only available to first-time buyers.	One-off tax relief for home buyers	National/Federal

Country	Measure name	Description	Income threshold	Other eligibility criteria	Type of aid	Responsible administration level
Canada	Capital Gains Tax Exemption	Tax relief on proceeds of sale of a homeowner's primary residence. Although it is not a measure specifically targeted to home buyers, the capital gains tax exemption provides home sellers with additional funds that can be used toward the purchase of a new home.	No	Homes must be the primary residence of the seller.	One-off tax relief for homeowners	National/Federal
Chile	Mortgage interest deduction	Individual taxpayers can deduct from their taxable income the interest paid for a mortgage loan during the year, if it was used to purchase one or more dwellings.	Yes	Must be a Chilean citizen.	Tax relief for mortgage payments	National/Federal
Colombia	Mortgage interest deduction	In Colombia, any natural person can deduct interest payments of mortgage loans, up to a maximum annual amount indicated by the law (see Art. 119 of the National Tax Statute) of 1,200 units of constant purchasing power.	No	Must be a Colombian citizen and first-time homebuyer.	Tax relief for mortgage payments	National/Federal
Colombia	Preferential tax treatment of special savings account to promote construction	Savings deposited in Special Savings Accounts (AFCs) are treated as exempt from income and complementary tax for the taxable period and are capped up to 30% of income and maximum of 3,800 Tax Value Units (COP 130,226,000 in 2019) per year (see Art. 126-4 of the National Tax Statute).	No	Must be a Colombian citizen and first-time homebuyer.	Preferential taxation of savings	National/Federal
Costa Rica	Property tax exemption	Exemption of property tax for property owners. Dwelling value must not exceed the equivalent of 45 base salaries (the base salary is currently valued at around USD 745).	No	Tax relief is granted to homeowners with only one property.	Exemption from property tax	Local/municipal

Country	Measure name	Description	Income threshold	Other eligibility criteria	Type of aid	Responsible administration level
Costa Rica	National Financial System Law for Housing and the Creation of BANHVI	Full exemption for homebuyers with respect to registration fees, tax stamps, professional association charges, and the real estate transfer tax. In addition, the construction of houses declared of social interest is exempt from the payment of cadastre rights, construction stamps, and other charges and stamps of the professional associations, and of 50% of the payment of construction and urbanisation permits and of all other taxes (Article 147).	Yes		One-off tax relief for home buyers	Local/municipal
Croatia	Programme of state-subsidised housing construction (POS)	Buyers who benefit from POS programme are exempt from paying real estate transfer tax. The exemption covers an amount which depends on the size of the purchased dwelling and number of persons in the household.	Yes		One-off tax relief for home buyers	Regional
Croatia	Tax exemption for buying first real estate property for own housing	First-time buyers are exempt from paying the 5% transfer tax.	No	First-time home buyer	One-off tax relief for home buyers	Regional
Czech Republic	Tax relief for mortgage payments *(Nezdanitelná cást základu dane)*	Tax deduction applicable only when housing needs are financed by a loan. Only tax residents of the Czech Republic and tax residents of an EU Member State or a State of the European Economic Area with no less than 90% of their income generated in the Czech Republic are entitled to the deduction. Tax deduction is generally also possible in the case of reconstructions, repairs, maintenance of housing properties.	No		Tax relief for mortgage payments	National/Federal

Country	Measure name	Description	Income threshold	Other eligibility criteria	Type of aid	Responsible administration level
Denmark	Tax deductibility of mortgage interest payments *(Rentefradragsret)*	Mortgage interest payments can be deducted from taxable income, consistent with the taxation of net income under a comprehensive income tax. Owner-occupied housing is taxed separately based on property values, roughly equivalent to the taxation of the imputed return.	No	No (all individuals are eligible)	Tax relief for mortgage payments	National/Federal
Estonia	The tax exemption on land under homes *(Kodualuse maa maamaksusoodustus)*	Owners of the land where they live are exempted from land tax for a total up to 0.15 hectares in towns and up to 2 hectares elsewhere.	No	No (all individuals are eligible)	Exemption from land taxes	National/Federal
Estonia	Deductible housing loan interest *(Eluasemelaenu intresside mahaarvamine)*	Deduction of mortgage interest from income tax	No	No (all individuals are eligible)	Tax relief for mortgage payments	National/Federal
Estonia	Tax exemption of transfer tax *(Elukoha müügi maksuvabastus)*	Tax exemption of the transfer of immovable property if: (i) the property has been the main residence of the taxpayer; (ii) the property was transferred to the taxpayer through restitution of unlawfully expropriated property; (iii) the property has been transferred to the taxpayer through privatisation with the right of pre-emption (subject to dwelling size restrictions); or (iv) the property is a summer cottage or garden house in the ownership of the taxpayer for more than two years (subject to dwelling size restrictions).	No	Must be an Estonian citizen.	Tax relief for transfer tax	National/Federal

Country	Measure name	Description	Income threshold	Other eligibility criteria	Type of aid	Responsible administration level
Finland	Tax credit on interest payments *(Asuntolainan korkovähennys)*	Tax credit corresponding to a share of interest paid on a loan for home purchase or for major home improvements. In 2019, 25% of home-loan interest is deductible from capital income. For those who have no capital income, 30% of the deductible interest payments are credited against earned-income tax (32% for first-time buyers).	No	Must be a Finnish citizen and first-time home buyer.	Tax relief for mortgage payments	National/Federal
Finland	Transfer tax exemption for first-time homebuyers *(Ensiasunnon ostajan varainsiirtoverovapaus)*	As a first-time homebuyer, you may not have to pay transfer tax if: (i) you are 18-39 years of age; (ii) after the purchase, your share of ownership is at least 50%; (iii) you purchase the dwelling to use as your permanent home and you move in within 6 months from signature of the contract; (iv) you are a first-time homeowner. The transfer tax exemption does not apply to parking spaces.	No	Must be a Finnish citizen and first-time home buyer.	One-off tax relief for home buyers	National/Federal
France	Zero interest loan *(Prêt à taux zéro)*	The scheme includes the following: (i) zero-rate loan; (ii) exemption of land tax for 2 years after the construction of the main residence; (iii) exemption of the first estate gain to purchase main residence; (iv) value added tax of 5.5% for social housing ownership.	Yes	Must be a French citizen and first-time home buyer.	One-off tax relief for home buyers	National/Federal
France	Land tax exemption *(Exonération de taxe foncière)*	Tax benefit with exemption of land tax for two years following construction; however, local authorities have the possibility to remove this tax benefit.	No	Must be a French citizen.	Exemption from land taxes	Local/municipal

Country	Measure name	Description	Income threshold	Other eligibility criteria	Type of aid	Responsible administration level
Greece	Tax exemption for first-time home buyers	The purchase, inheritance of a first home is exempted from tax.	No	Must be a Greek citizen and first-time home buyer. Must retain property for at least 5 years. Limits based on household size and composition and dwelling value and size.	One-off tax relief for home buyers	National/Federal
Ireland	Help to Buy Incentive	Help to Buy (HTB) is an income tax relief designed to assist first-time buyers with obtaining the deposit required to purchase or build their first home. The relief is only available for new builds. The relief takes the form of a rebate of income tax paid over the previous four tax years. There are limits on the maximum rebate amount. Sunsets on 31 December 2019; primary legislation would be required to extend the incentive.	Yes	Purchasers must be first-time buyers and the property cost must be no more than EUR 600,000.	One-off tax relief for home buyers	National/Federal
Iceland	Tax relief for mortgage payments *(Vaxtabætur)*	Individuals who buy a residence for their personal use and bear interest expenses are entitled compensation by the State Treasury. The amount of interest compensation is based on the interest for loans obtained for the purpose of financing a building or for purchase of a residence.	Yes	Benefits are linked to income and net wealth, with limits on the amount of interest.	Tax relief for mortgage payments	National/Federal
Israel	Exemption from purchase tax for first-time home buyers	Tax relief for the purchase of a first home. The price of the dwelling must be under a certain threshold.	No	Must be an Israeli citizen and first-time home buyer.	One-off tax relief for first-home buyers	National/Federal

Country	Measure name	Description	Income threshold	Other eligibility criteria	Type of aid	Responsible administration level
Italy	Tax deductibility of mortgage interest for first-time home buyers	Tax deduction on mortgage interest payments provided that: (i) the property is used as a principal residence within one year of purchase; and (ii) the purchase of the dwelling is made the year preceding or following the date of stipulation of the loan. Limits on the total annual amount to which the tax deduction applies.	No	Must be an Italian citizen and first-time home buyer.	Tax relief for mortgage payments	National/Federal
Italy	Real estate leasing	Young people under 35 with maximum income of EUR 55,000 are eligible for tax benefits related to real estate leasing, as well as a deduction from personal income tax of 19%, up to EUR 8,000 per year. The deduction is applied to the rent and related additional charges paid pursuant to "financial lease agreements on real estate units, including those to be built, to be used as a principal residence within one year of delivery," and up to EUR 20,000 on the selling price, in the case of exercise of the purchase option. For people over 35 years of age and an income not exceeding EUR 55,000, the deduction of 19% from personal income tax is granted on a maximum amount of EUR 4,000 relative to the fees and EUR 10,000 in relation to the selling price.	Yes	Young people under age 35; smaller limits for people over age 35	Tax deduction	National/Federal
Japan	Tax relief for purchase of house with mortgage	Deduction of 1% of remaining mortgage loan balance from income tax up to a maximum amount, for 10 years. If the deduction exceeds the beneficiary's income tax liability, the remainder may be deducted from municipal tax up to a maximum amount. Bonus payments are provided for those on low incomes.	Yes	The relief applies to owner-occupied main residential dwelling, with floor area over 50 square meters.	Tax relief for mortgage payments	National/Federal

Country	Measure name	Description	Income threshold	Other eligibility criteria	Type of aid	Responsible administration level
Latvia	Fee reduction for registering property ownership	Eligible households are families with children who benefit from the state housing guarantee programme pay a reduced fee (0.5% of property value, rather than 2%) for registering ownership rights to immovable property in the land registry (if the value of the property is less than EUR 100,000).	No	This fee reduction can only be used by people using the guarantee program by Altums for families with children.	One-off reduction in registration fees	National/Federal
Luxembourg	Tax deductibility of mortgage interests *(Déductibilité fiscale des intérêts débiteurs)*	Deduction of interest payments from income taxes. Once the dwelling is occupied, the maximum amount of deductible interest progressively decreases over time.	No	Must be a Luxembourg citizen. Dwelling must be permanent residence.	Tax relief for mortgage payments	National/Federal
Luxembourg	Deductibility of the payment protection insurance premium	Deduction of the premium for loan repayment insurance from income taxes, as a one-off premium or as an annual premium. As an annual premium, the maximum deduction is EUR 672 for each person in the household. As a one-off premium, the amount depends on the number of adults and children in the household, as well as the age of the insured party: the amount varies between EUR 6,000 for an individual taxpayer aged under 30 without children, to EUR 40,560 for a couple with 3 children for an insured party aged over 50.	No	No (all individuals are eligible)	Tax relief for mortgage payments	National/Federal
Luxembourg	Deductibility of the contribution to a property savings plan	Deductibility of yearly contributions to a property savings plan (*plan d'épargne logement*). A maximum EUR 672 per person in the household is deductible from income tax.	No	First-time homebuyers	Preferential taxation of savings	National/Federal
Luxembourg	Tax credit on notary deeds *(Bëllegen Akt)*	An individual can benefit from the tax credit on notary deeds several times, until (s)he reaches the lifetime threshold of EUR 20,000.	No	The recipient must occupy the dwelling for at least 2 years (and not rent it out) as his/her permanent residence.	One-off tax relief for home buyers	National/Federal

Country	Measure name	Description	Income threshold	Other eligibility criteria	Type of aid	Responsible administration level
Malta	First-time buyers Scheme	The first EUR150,000 of the transfer value of the immovable property is exempt from stamp duty, up to a maximum discount of EUR 5,000.	No	First-time property buyer, provided that the property is purchased for the beneficiary's own residence.	One-off tax relief for homebuyers	National/Federal
Malta	Own Residence	Preferential rate on stamp duty for those buying a home to be used as their sole main residence	No	Available to all, provided that this credit was not already availed of on another property.	One-off tax relief for home buyers	National/Federal
Mexico	VAT exemption for mortgage interest	Tax relief for mortgage payments	Yes	Must be a Mexican citizen.	Tax relief for mortgage payments	National/Federal
Mexico	Real interest deduction to individuals for mortgage credit	Individuals can deduct real interest for mortgage credit in their Personal Income Tax.	No	Must be a Mexican citizen. Limit on maximum value of dwelling.	Tax relief for mortgage payments	National/Federal
The Netherlands	Deductible mortgage interest rate	Deduction of mortgage interest payments. There is a maximum deduction percentage of 51% in 2015. This maximum is reduced by 0.5%-point every year until it reaches 38%. The interest deductibility is conditional on amortization: at least based on an annuity scheme with a 30-year repayment scheme.	No	No (all individuals are eligible)	Tax relief for mortgage payments	National/Federal
New Zealand	Rates Rebate Scheme	A government subsidy to low-income homeowners to pay their local government tax. The scheme is funded by central government but administered by local governments. A household can receive up to NZD 630. Individual amounts vary depending on rates bill and income.	Yes	Income threshold of NZL 25,180, plus NZL 500 income allowance for each dependent in the household	Tax credit	Funded by national government; administered by local government

Country	Measure name	Description	Income threshold	Other eligibility criteria	Type of aid	Responsible administration level
Norway	Home savings for the young	A home savings account can be established by anyone under the age of 34. There are caps on the maximum annual deposit and total deposit in the savings account, and the deposit must be used to purchase a dwelling or to pay off loans on a dwelling that has been acquired after the account was established. 20% of the annual savings amount is deductible from taxes.	No	Persons aged under 34	Tax deduction linked to a saving plan	National/Federal
Norway	Imputed rent and capital gains tax	Imputed rent and capital gains from the sale of a taxpayer's home (owner occupied) are not taxed.	No	No (all individuals are eligible)	One-off tax relief for homeowners	National/Federal
Norway	Net wealth tax discount	The taxable value of assets is equal to their market value. Homes and other immovable properties are valued well below market value (e.g., the taxable value of a primary residence averages 25% of market value; 90% for secondary homes; and 75% for recreational property).	No	No (all individuals are eligible)	Net wealth tax discount	National/Federal
Poland	Housing relief *(Ulga mieszkaniowa)*	Income gained through the transfer of immovable property is exempt from income tax, if it is spent within three years on purchase or/and regeneration of the taxpayer's own dwelling.	No	No (all individuals are eligible)	Tax credit	National/Federal
Poland	Exemption from taxation of interest rate subsidies	Exemption from taxation for interest rate subsidies to preferential loans applied on the basis of the act on financial support for families and other people in purchasing their own dwelling.		It applies to beneficiaries of support through the *Rodzina na swoim* programme.	Tax credit	National/Federal

Country	Measure name	Description	Income threshold	Other eligibility criteria	Type of aid	Responsible administration level
Poland	Exemption from taxation of public financial support for home buyers and reimbursement of expenses on acquisition of building materials	Exemption from taxation of amounts of public financial support and of amounts of reimbursement of expenses on acquisition of building materials, granted on the grounds of the act on the state aid in acquisition of the first residential apartment by young people.		It applies to beneficiaries of support through the *Mieszkanie dla Mlodych* programme to support young people in purchasing their first dwelling.	Tax credit	National/Federal
Poland	Exemption from taxation of public financial support for certain housing loans	Exemption from taxation of amounts of redeemed receivables pursuant to the act on the state aid in repayment of certain housing loans granted to persons who have lost their jobs.		For people who have lost their jobs	Tax credit	National/Federal
Portugal	Tax relief for mortgage payment	Deduction of mortgage interest from income tax	No	No (all individuals are eligible)	Tax relief for mortgage payments	National/Federal
Russian Federation	Tax deduction for purchasing dwelling	All citizens have the right to a one-time tax deduction of the cost of purchasing or building a home (up to RUR 2 million of taxable income). Maximum deduction is RUR 260,000.	No	Must be a Russian citizen.	One-off tax relief for first-home buyers	National/Federal
Russian Federation	Mortgage tax deduction	All citizens have the right to a one-time tax deduction of mortgage interest payments (up to RUR 3 million of taxable income). Maximum deduction is RUR 360,000.	No	Must be a Russian citizen.	Tax relief for mortgage payments	National/Federal

Country	Measure name	Description	Income threshold	Other eligibility criteria	Type of aid	Responsible administration level
Spain	Royal Decree-Law 7/2019 of 1 March on urgent measures regarding housing and rent *(Real Decreto-ley 7/2019, de 1 de marzo, de medidas urgentes en materia de vivienda y alquiler)*	Different fiscal benefits relating to transfer taxes and real estate taxes		No (all individuals are eligible)	Tax relief	National/Federal
Sweden[c]	Tax deduction of interest expenditure	Mortgage interest expenditures up to SEK 100,000 are deductible by 30%, and interest expenditures above this threshold are deductible by 21%. (NB: All interest expenditures are deductible, not only interest expenditures directly related to housing.)	No	No (all individuals are eligible)	Tax relief for mortgage interest	National/Federal
Sweden[c]	Reduced property fee for pensioners	People who have reached the age of 65 at the beginning of the year or who receive sickness or activity compensation during the year will only have to pay a maximum of 4% of their income in real estate fees. The rules also apply to persons who have received compensation under legislation on social security in another state within the EEA if it can be equated with sickness or activity compensation.		No (all individuals are eligible)	Tax deduction	National/Federal
Switzerland	Encouraging home ownership (2nd pillar)	Preferential tax rate on advanced payments up to the amount of vested benefits from occupational benefit plans concerning old-age (2nd pillar), survivors and invalidity (1st pillar) used to finance a principal home property	No	The amount that can be withdrawn is limited for persons aged over 50.	Preferential taxation of advanced payments	Federal, regional, or municipal (depending on the canton)

Country	Measure name	Description	Income threshold	Other eligibility criteria	Type of aid	Responsible administration level
Switzerland	Encouraging home ownership (3rd pillar)	Early payments for the purchase by the insured person (private pension schemes, 3rd pillar) of his/her home property are taxed at a lower marginal income tax rate.	No	No further requirements	Preferential taxation of advanced payments	Federal, regional, or municipal (depending on the canton)
United Kingdom	Capital Gains Tax: Private Residence Relief (PRR)	Private Residence Relief relieves homeowner from capital gains tax on any gain made on a residential property, throughout the period in which the property is occupied as a main residence.	No	Relief is prorated if throughout the period of ownership the property is not wholly used as a main residence.	One-off tax relief for homeowners	National/Federal
United Kingdom	Stamp Duty Land Tax: First-Time Buyers' Relief (FTBR)	First-time buyers purchasing their first home for up to GBP 300,000 are exempt from Stamp Duty Land Tax. Where the purchase price is between GBP 300,000 and 500,000, they will pay 5% on the amount above GBP 300,000.	No	First-time home buyers. Property must be intended for main residence.	One-off tax relief for first-home buyers	National/Federal
United States	Mortgage interest deduction	Mortgage interest deductibility from federal taxable income: homeowners are allowed to deduct the interest they pay on a mortgage that finances a primary or secondary residence as long as they itemize their tax deductions.	Yes	The dwelling must be used for owner-occupation. The maximum mortgage amount is USD 750,000 (USD 375,000 if married filing separately). The maximum is USD 1,000,000 (or USD 500,000 if married filing separately) if the loan was taken before 17 December 2017.	Tax relief for mortgage payments	National/Federal

Source: This table is a reproduction of OECD Affordable Housing Database Table PH2.2.1: *Tax relief supporting access to home-ownership: Overview of existing measures*, available at http://www.oecd.org/els/family/PH2-2-Tax-relief-for-home-ownership.pdf.

Note: The original source for this table did not explain why some table cell entries were left blank or otherwise indicate how to interpret missing entries.

a. Australia: Some state and territory governments provide an exemption or concession on stamp duty (transfer duty) for first-home buyers. The rate of concession and conditions differ between states and territories. The New South Wales First Home Buyer Assistance Scheme has been used as an example of stamp duty concession and exemption for first-home buyers.

b. Belgium: The Regional Housing Bonus in the Brussels-Capital Region has been abolished. As of 1 January 2017, the taxpayer can benefit from an increased abatement under the right of sale.

c. Sweden: mortgage interest is deductible like interest on other kinds of debt. There is also an exemption from paying property tax on new-built dwellings for 15 years, but it applies not only to owner-occupied dwellings but also rental dwellings.

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