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REAL ESTATE Update™

Federal Real Estate and Mortgage Tax Incentives

What's the mortgage interest deduction worth to the typical homeowner who claims it at tax time? Nearly $10,000 on average, according to a provocative new analysis of federal incentives for homeowners nationwide.

But there are many parts of the country where the "typical" tax deduction for mortgage interest is far bigger, and plenty of others where it is considerably smaller. Take, for example, California's 14th congressional district in and around high-cost Silicon Valley. The average taxpayer there took a whopping $35,000 in mortgage interest deductions during the year covered by the research -- more than six times the average mortgage interest write off taken during the same period by residents of Oklahoma ($5,710).

The homeowners of the 14th district took an aggregate $3.2 billion worth of mortgage interest deductions and that total was about the same as all the mortgage interest write offs claimed by all the homeowners in seven states -- Alaska, Montana, North and South Dakota, Vermont, West Virginia and Wyoming -- combined.

The new research study by the National Association of Home Builders used the latest available IRS tax data -- tax year 2003 -- and broke deductions down by the state and congressional districts of the taxpayers. The report was prepared in part to demonstrate the size and economic importance of the mortgage interest and real property tax write offs to individual congressional representatives.

To illustrate: Confronted with the $3.2 billion write offs taken by 14th district constituents in a single year, any savvy congressman would be loath to cut back on the deduction, even to reduce the federal deficit.

In tax year 2006, according to estimates by Congress's joint committee on taxation, homeowners will claim a total of $81 billion in mortgage interest deductions. By 2009, the write offs are expected to hit $100 billion a year. The deduction is available on all qualifying principal residences where the mortgage amount does not exceed $1 million and home equity debt does not exceed

$100,000. As a practical matter, homeowners can write off interest annually on home mortgage debt totaling $1.1 million.

They can also write off local real property taxes paid on a principal residence during the tax year without limit. In 2006, according to congressional estimates, $15 billion in "local real" will be deducted by homeowners.

The highest property tax deductions, not surprisingly, go to homeowners in high tax areas, especially in the northeastern states. For example, the residents of New York's 3rd congressional district on Long Island, took an average $11,884 in property tax write offs during 2003, a total of $1.25 billion for the district. That aggregate write off was more than all the property tax deductions taken in 2003 by homeowners in eight states combined -- Wyoming, West Virginia, Hawaii, the District of Columbia, Delaware, South and North Dakota and Arkansas. (For federal tax purposes, the study treated D.C. as the equivalent of a state.)

The NAHB research found that the highest states for property tax write offs were New Jersey (an average $16,005 per homeowner), New York ($15,187), New Hampshire ($14,830), Illinois ($14,129) and Vermont ($13,845). The highest states for mortgage interest write offs on average were California ($14,217), Hawaii ($12,766), the District of Columbia ($11,759), Nevada ($11,522) and Washington ($11,223).

The lowest states for mortgage interest deductions were Oklahoma ($5,710), Iowa ($6,754), North Carolina ($6,808) and Maine ($6,888).

Jerry Howard, executive vice president and CEO of NAHB, said, "The report shows that millions of working families around the nation use and depend upon these important tax incentives to help them maintain their current standard of living. Because the mortgage interest and real estate deductions significantly reduce federal tax liabilities for homeowners, they are important tools for promoting homeownership."

The not-so-subtle message to Congress from NAHB: Don't mess with these write offs. They're too important to the people who elected you … and can throw you out of office if you cut their deductions.

Note: If this article generates additional questions or a need for additional information, the following link will allow you to ask your question(s), request additional information or make comments. It is not my intent to bug you with unwanted phone calls, emails, or text messages! It is my intent to allow you to benefit from my 35+ years real estate activity and to give you a buying experience beyond your expectations!

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