Opinion: Mortgage interest deduction tied to fiscal cliff

By Jill Teakell

Home is where the heart is. A man's home is his castle. There's no place like home.

These familiar sayings remind us of the emotional connection Americans have with homes and homeownership. However, home also is where our nation's economic recovery resides – which is why all Americans should oppose any proposal that would eliminate or attempt to alter the mortgage interest deduction, as it undermines a century-old commitment to the American Dream of homeownership.

Unless Americans are vocal in their opposition during the current tax reform debate, Congress may, in effect, shove generations of current and future homeowners off "the fiscal cliff" by jettisoning their ability to deduct mortgage interest from their federal income taxes.

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While current discussions involve reducing the limit to $500,000 for a primary residence and eliminating it entirely for second homes, any attempts to reduce the mortgage interest deduction would not only have deleterious effects on homeownership, but also be tantamount to taking the first step toward a wholesale elimination of this long-standing deduction.

The mortgage interest deduction makes a substantial difference for lower and middle-income families. If the mortgage interest deduction is taken away, it would cost the average California taxpayer $3,940 annually, and more than 694,000 Californian households would no longer be able to afford to buy a median-priced home.

Eliminating the mortgage interest deduction would have immediate and dire consequences. It would slam the brakes on America's economic recovery by changing the fundamental economics of homeownership for more than 75 million Americans and slow or even reverse recent home price gains. Since housing is widely regarded as a key economic driver, our country could be driven back into recession.

In high cost areas such as California, the damage would be even worse. California homeowners would lose $356.8 billion in potential tax savings, and the recent recovery in home prices would be jeopardized. The state also could realize a loss of more than 40,000 home sales over time, which would cost the California economy $2.4 billion in lost output.

Lake Tahoe, as a second home market, would be most vulnerable. Fewer vacation homebuyers could reduce the demand for housing and cause a precipitous drop in property values.

Reducing the allowable amount of the mortgage interest deduction wouldn't be any less damaging either. The tax liability for more than 1.19 million primary or secondary homeowners would be negatively impacted if the deductible interest were limited to $500,000. Furthermore, should the mortgage interest deduction be eliminated for second homes, the potential economic losses to the California economy would total more than $557 million.

How important is the mortgage interest deduction to homebuyers? In a recent survey by the California Association of Realtors, 79 percent of homebuyers said that mortgage interest and property tax deductions were “extremely important” in their decision to purchase a home. A Pew Research Center study last year found that 80 percent of Americans believe buying a home is the best long-term investment they can make – even considering the real estate downturn.

In the final analysis, “There’s no place like home.” By preserving the mortgage interest deduction, President Obama and Congress can provide the boost most Americans – and our economy – need to keep the American Dream of homeownership alive and well for generations to come.

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