AAII Survey: Potential End of Mortgage Interest Deduction Will Not Impact Approach to Real Estate

As tax reform works its way through Congress, many homeowners, including me, are paying close attention to what may happen to the mortgage interest deduction. Once considered untouchable, the tax break is now in potential danger of being revised if not eliminated. The House and Senate plans do not currently eliminate the mortgage interest deduction, but some suggest that the proposed changes would dramatically lessen its effect on the economy which, in turn, sets it up for elimination in the future. For example, the House Tax Cuts and Jobs Act would halve the maximum size of the break, lowering the total amount of home debt on which interest could be deducted from $1 million to $500,000.

The Treasury estimates that the deduction would cost more than $1 trillion in revenues over the next decade if the law stayed unchanged.

Politicians do have academic research on their side. There is mounting evidence that the break does not promote homeownership, undercutting the main argument used by the housing sector to defend it.

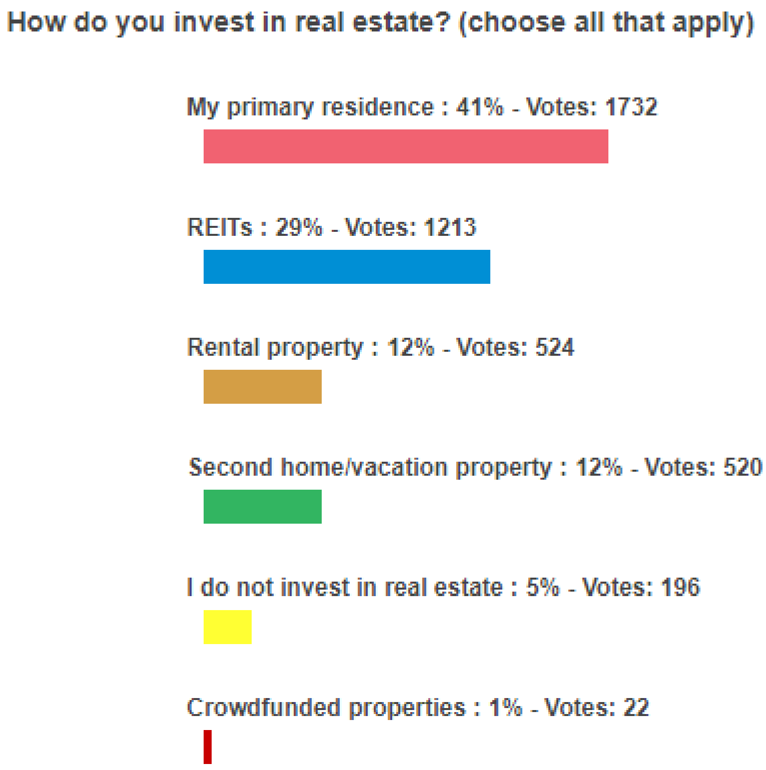
The tax reform bills would also reduce other tax breaks seen as subsidizing housing. Both the House and Senate bills double the standard deduction, which would have the effect of lessening the economic impact of many specific deductions. Republican plans would raise that standard deduction to $24,000. "By doubling the standard deduction, as both the House and Senate bills do, only a fraction of Americans will take advantage of the MID [mortgage interest deduction], because they will no longer itemize," said Elizabeth Mendenhall, president of the National Association of Realtors.

AAII Weekly Survey Question

To get a feel for how any possible changes to the mortgage interest deduction would impact our readers, last week's survey question asked:

How do you invest in real estate?

Here are the results:



For most of our readers, their primary residence is the way in which they invest in real estate at 41%.

Another 29% of responses stated that readers invest in real estate investment trusts or REITs.

Basically tied for third place at 12% were rental property and second home/vacation property.

Only 5% of responses stated that the reader does not invest in real estate while the final 1% say they invest in crowdfunded properties.

Weekly Special Question

Having seen how our readers invest in real estate, if they do at all, we returned to the initial top of this post: the mortgage interest deduction. To see how changes to this tax break would impact the ways in which readers invest in real estate, last week's special question asked:

If the tax reforms being considered by Congress did away with deductions for mortgage interest and/or property taxes, how would that change how you invest in real estate?

In all, we received 454 responses. I was a bit surprised that the majority (65%) or respondents said that any changes to the deductibility of mortgage interest (or property taxes) would have little or no change on how readers would invest in real estate. In retrospect, though, most of our readers tend to be older and are probably at a point where they have paid off their home or have downsized and now rent. In fact, roughly 14% of readers said they do not invest in real estate or have a mortgage.

Only 32% of respondents said that changes to mortgage/property tax deductions would have a negative impact on how they invest in real estate. More than 6% of readers say that if the changes come about they will sell or change properties to lessen the tax impact. Another 6% say they would be less likely to buy or invest in real estate if the changes in the deduction took place. Nearly 4% said they would pay down their mortgage more quickly.

Lastly, almost 3% of readers say that changes to the mortgage interest deduction would make them more likely to invest in real estate.

Here is a sampling of the responses:

- “I have paid off all my real estate mortgages, thus it does not affect my investment strategy.”
- “I would look at renting and determine if it made sense. I would pay off my mortgage sooner.”
- “Would definitely curtail my real estate investment.”
- “I would become a renter.”
- “I would sell my vacation home.”
- “The incentive for homeownership would be diminished.”
- “I would turn my second home into a rental, as I understand that rentals can still deduct mortgage interest and property taxes as they are treated as a business.”
- “I would stop refinancing my properties, pay them off as quickly as possible. Consider starting a business to create tax advantages.”
- “Most baby boomers want to ‘downsize.’ Further, being mortgage free is another plus.”
- “I do not consider my residence an investment because it does not generate income; it is my place of shelter. The cost of purchase versus renting would be the way to evaluate the transaction. Real estate investments would have to prove their worth by meeting my financial goals with or without tax incentives.”

Everybody has an opinion! Why not give us yours? Participate in our weekly member poll, updated every Monday, and see the results online at www.aaii.com/memberquestion.