Effects of Reforms of the Home Mortgage Interest Deduction by Income Group and by State

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ABSTRACT

This report considers three options for restructuring the home mortgage interest deduction – replacing the deduction with a 15 percent non-refundable interest credit, reducing the ceiling on debt eligible for an interest subsidy to $500,000, and combining the substitution of the credit for the deduction with the reduced limit on the interest subsidy. All three options would raise federal tax revenue and make the tax system more progressive. Distributional effects would differ by state of residence and, within states by income group. We display distributional effects by income group in California, Kentucky, Illinois, Michigan, New York, Oregon, Texas, Utah, and Wisconsin.

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CURRENT LAW AND REFORM OPTIONS

About 30 percent of individual taxpayers itemize deductions to their federal income tax returns, and 75 percent of those who do so claim a deduction for home mortgage interest. Under current law, taxpayers can deduct interest on up to $1 million in acquisition debt used to buy, build, or improve their primary residence or a second designated residence. They can also deduct interest on up to $100,000 in home equity loans or other loans secured by their properties, regardless of the purpose of loans.[1]

The value of the deduction differs across taxpayers because of their different marginal tax rates. A taxpayer in the top tax bracket of 39.6 percent would save $39.60 whereas someone in the 15 percent bracket would save only $15 from $100 additional interest deductions.

Four out of five taxpayers do not claim the mortgage interest deduction, many of whom are lower-income taxpayers. Most of them instead claim the standard deduction because it is larger than the sum of all their potential itemized deductions. Others are itemizers who either do not own a home or have paid off their home mortgage loans.

We consider three options to reform the deduction for home mortgage interest:

Option 1: Replace the mortgage interest deduction with a 15 percent non-refundable tax credit that can be claimed by both itemizers and non-itemizers, while maintaining the $1 million cap on the eligible debt.

Option 2: Reduce the maximum amount of debt eligible for the mortgage interest deduction to $500,000.

Option 3: Replace the deduction with a 15 percent non-refundable credit, and reduce the cap on the size of the mortgage eligible for the tax preference from $1 million to $500,000.

For each of the three options, we present federal-level revenue and distributional effects: we display (1) revenue effects for fiscal years 2017 through 2026, (2) distributional effects of beneficiaries and benefits from the mortgage interest subsidy in 2016, and (3) distributional effects of federal tax changes under different options compared with current law. In addition, using a method the Tax Policy Center (TPC) developed of imputing state weights to samples of federal taxpayers, we analyze the effects of the options by state of residence and by income within selected states. Specifically, we display: (4) federal income tax changes by state of

[1] The amounts of $1 million and $100,000 are not indexed for inflation. In 2010, an IRS ruling allowed taxpayers with acquisition debt over $1 million to re-characterize the debt in excess of $1 million as a home equity loan. This effectively raised the ceiling on acquisition debt that is deductible to $1.1 million, which remains the allowable maximum on the sum of acquisition debt and home equity loans that are deductible.

residence, and (5) the distributional effects of federal income tax changes by income group within each of nine selected states.

Here are five key takeaways (one for each section):

- All three options would raise federal tax revenue, and Option 3 would raise the most.
- More taxpayers would benefit from the credit than from the deduction, but the average benefit per recipient from the credit would be substantially lower than that from the deduction.
- Under Options 1 and 3, the biggest winners are the lower-and-middle-income taxpayers while the biggest losers are high-income people who are not at the very top of income scale. Option 2 would impose relatively higher tax increases on upper-income taxpayers.
- Both Options 1 and 3 would increase the average amount of federal tax paid in 46 states and the District of Columbia; Option 2 would increase average federal taxes in all states. Taxpayers in some states would face a much larger federal tax increase than taxpayers in others.
- The distributional effects within the selected states are similar to the distributional effects for the entire country, but do differ from each other. Under Options 1 and 3, higher-income states would have a higher percentage of taxpayers experiencing federal tax increases than the national average and a lower percentage of taxpayers experiencing tax cuts because relatively fewer people in high-income states are non-itemizers who do not benefit from the mortgage interest deduction, but would benefit from a credit.

PHASE-IN SCHEDULE AND ASSUMPTIONS

Revenue estimates are based on three assumptions. First, each option would be phased in over 5 years, for tax years beginning on January 1, 2017. For options that convert the deduction to a credit (i.e. option 1 and 3), they would: (1) allow taxpayers to claim only 80 percent of eligible mortgage interest in 2017, decreasing by 20 percentage points each year until the mortgage interest deduction is completely eliminated in 2021; and (2) allow taxpayers to claim a nonrefundable credit equal to 3 percent of eligible mortgage interest in 2017, increasing by 3 percentage points per year until hitting 15 percent in 2021 and thereafter. Options that reduce the cap (i.e. option 2 and 3) would gradually lower the current law maximum of $1,000,000 to $900,000 in 2017 and by an additional $100,000 for each subsequent year until the permanent limit of $500,000 is reached in 2021. Since Option 3 would both convert the deduction to a credit and impose a limit on the amount of eligible mortgage, we use Option 3 as an example to illustrate how the phase-in schedule works (Table 1 and Figure 1).

TABLE 1

Illustration of Phase-In Schedule for Option 3

Amount of Mortgage Eligible for an Interest Deduction or Credit Per Tax Unit, 2016-2026

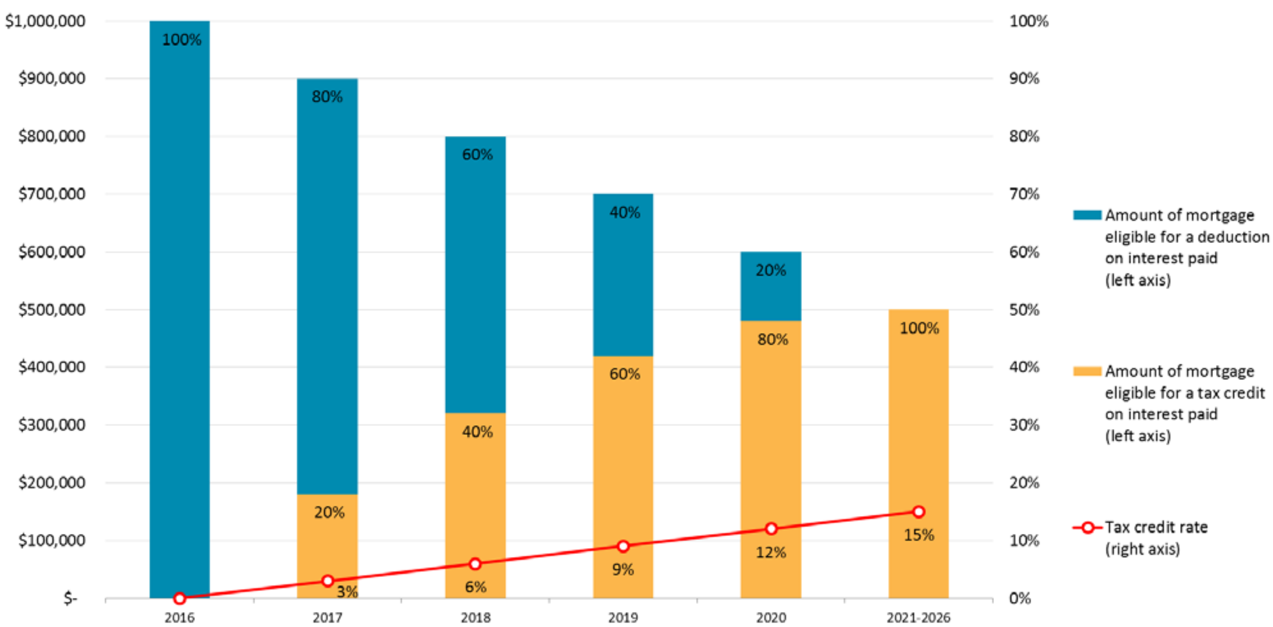
Year	2016	2017	2018	2019	2020	2021-2026
Percent of home mortgage eligible for an interest deduction	100%	80%	60%	40%	20%	0%
Percent of home mortgage eligible for a tax credit	0%	20%	40%	60%	80%	100%
Tax credit rate	0%	3%	6%	9%	12%	15%
Amount of home mortgage eligible for an interest deduction ($)	1,000,000	900,000	800,000	700,000	600,000	500,000

Note: Reform Option 3 is to replace the deduction with a 15 percent non-refundable credit, and to reduce the cap on the size of the mortgage eligible for the tax preference from $1 million to $500,000, allowing for second mortgages and home equity loans under the cap.

FIGURE 1

Illustration of Phase-In Schedule for Option 3

Amount of mortgage eligible for an interest deduction or credit per taxpayer, 2016–2026



Second, taxpayers optimally pay down their mortgage in response to a smaller tax preference for mortgage interest. For example, if the mortgage interest deduction was eliminated, taxpayers with positive sources of investment income would sell some capital assets to pay down some of their mortgage debt. Third, our revenue estimates are micro-dynamic; a taxpayer's reported taxable income responds to changes in his or her statutory marginal tax rate. However, we do not incorporate any possible impacts of the policy changes on home values, homeownership rates, mortgage interest rates, or new investment in housing.

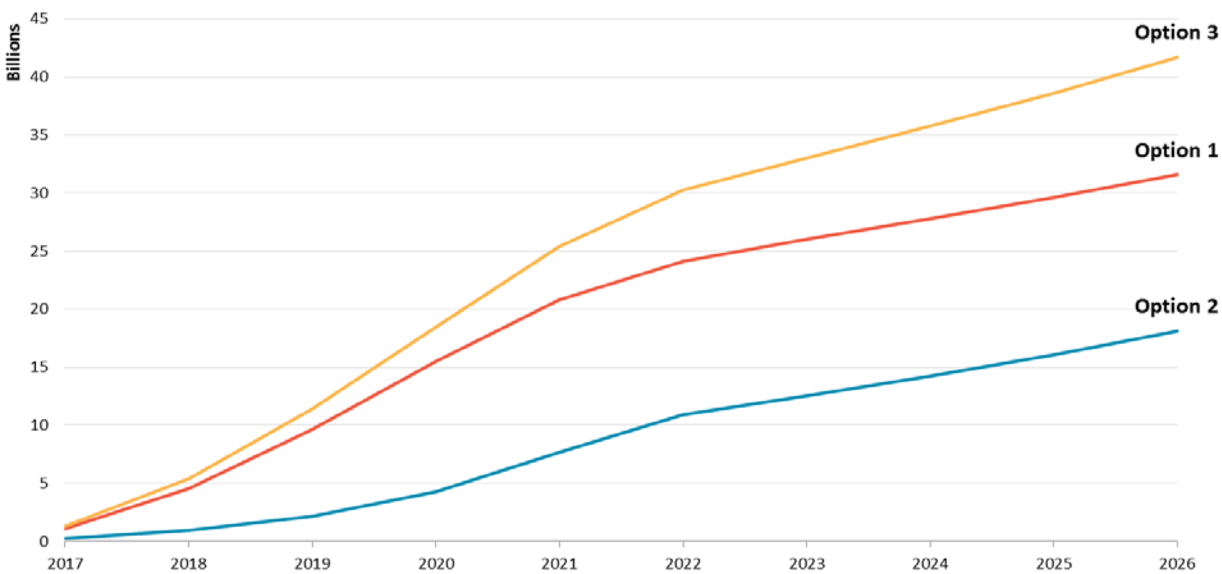
For distributional estimates, each option is on a fully phased-in basis, starting on January 1, 2016. The distributional estimates assume no behavioral responses, other than tax form optimization (e.g., choosing the itemization status that minimizes tax liability).

REVENUE EFFECTS

The deduction for home mortgage interest is among the largest federal tax expenditures. The Joint Committee on Taxation estimates that the federal revenue cost of the deduction for home mortgage interest deduction will total $77 billion in fiscal year 2016, increasing each year thereafter to $96 billion in 2019.[2]

All the options would increase federal revenues, with the annual increase rising over time as the options are phased in (Appendix Table 2 and Figure 2). Phasing out the deduction and phasing in the 15 percent non-refundable credit, while maintaining the current cap on the amount of eligible debt, will raise approximately $191 billion between fiscal years 2017 and 2026. Simply imposing a $500,000 cap on the amount of eligible debt for the mortgage interest deduction will raise approximately $87 billion over the same time period. Phasing out the deduction, phasing in the 15-percent credit, and imposing a $500,000 cap will raise approximately $241 billion over 10 years.

FIGURE 2
Tax Revenue Increase
Options 1 to 3 vs. Current Law, 2017–2026



Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0516-1).

[2] Joint Committee on Taxation (2015). Estimates of Federal Tax Expenditures for Fiscal Years 2015-2019.

DISTRIBUTIONAL EFFECTS OF BENEFICIARIES AND BENEFITS

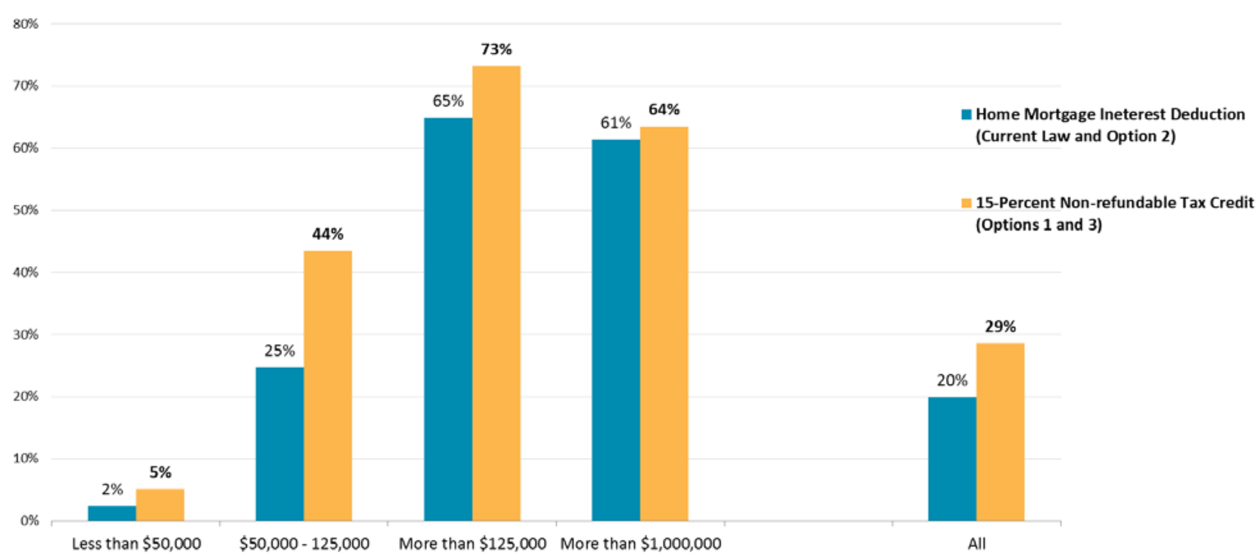
In this section, we address three key questions under current law and each of the three alternatives: (1) how many taxpayers in each income group would get the benefits, (2) what are the average benefits per taxpayer, and (3) what is the approximate relationship between the size of benefit and income of a beneficiary. We present the distributions of beneficiaries and average benefits by income group under current law and each option. Three key findings are:

- More taxpayers would benefit from the credit than from the deduction (Figure 3).
- For taxpayers receiving benefits, the average benefit from the credit would be substantially lower than that from the deduction (Figure 4): for example, under current law and option 2, beneficiaries receive an average benefit of $1950 and $1820, respectively, while under options 1 to 3 they receive $990 and $950, respectively. The same patterns hold for almost every income group, except for those at the very bottom of the income scale.
- Under current law or any of the reform options, the average size of the benefit always increases with income. But replacing the deduction with the tax credit, and imposing a lower cap would both mitigate this regressive distributional pattern because the higher-income beneficiaries would see a larger decline in their average benefit. (Figure 4).

FIGURE 3

Percent of Tax Units with Benefits from Tax Expenditures for Home Mortgage Interest

By expanded cash income level, 2016

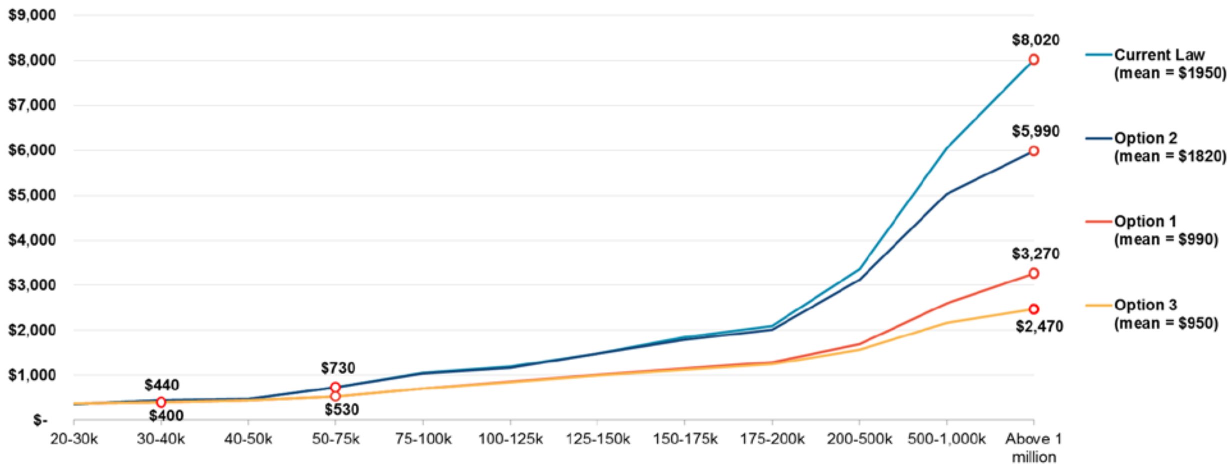


Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0516-1).

FIGURE 4

Average Benefits from Tax Expenditures for Home Mortgage Interest

For all beneficiaries, By expanded cash income level, 2016



Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0516-1).

Mortgage Interest Deduction with a $1 million Cap (Current Law)

Under current law, in 2016, about 35 million tax units, or 20 percent of the total, will benefit from the itemized deduction for mortgage interest (Appendix Table 3 and Figure 3). Among tax units with cash incomes less than $50,000, just 2.1 million, or 2.4 percent, benefit from the deduction. Most tax units with incomes below $50,000 do not claim a mortgage interest deduction either because they have no mortgage or because, compared with the standard deduction, their interest expense, combined with other deductible expenses, is too low to provide a benefit from claiming the deduction. One-fourth of taxpayers with incomes between $50,000 and $125,000 benefit from the current deduction. Almost two-thirds of those with incomes greater than $125,000 benefit from the deduction. Among these high-income taxpayers, those at the very top of the income scale benefit slightly less than those with slightly lower incomes; three-fourths of the taxpayers with incomes between $200,000 and $1 million benefit while three-fifths of those with incomes above $1 million benefit. This is because a smaller percent of taxpayers at the very highest incomes have mortgages.

Overall, under current law in 2016, the average benefit for taxpayers who claim the deduction will be $1,950. The average size of the benefit increases with income. For example, the average benefit for taxpayers claiming the deduction in the $40,000 to $50,000 income group is less than $500, while that for taxpayers claiming the deduction with cash incomes of more than $1 million is more than $8,000. This increase in the average benefit results from two factors: (1) higher-income taxpayers with mortgage debt have larger mortgages on average, and (2) the value of the deduction for any given amount of mortgage interest increases with the taxpayer's marginal income tax rate.

15-Percent Credit with a $1 Million Cap (Option 1)

Under the option to convert the current deduction to a 15 percent non-refundable credit, the number of tax units who benefit would rise by 15 million, to a total of 50 million—approximately 29 percent of all tax units (Appendix Table 3 and Figure 3). Compared to the deduction, a tax credit would benefit many more taxpayers in lower income groups. The number of tax units with incomes less than $50,000 who benefit would more than double from 2.1 million under the deduction to 4.6 million, or 5.2 percent of tax units, with the mortgage credit. The percent of units benefiting would rise from 25 to 44 percent of those with incomes between $50,000 and $125,000, but only from 65 to 73 percent of those with incomes greater than $125,000. While only itemizers can claim the deduction, both itemizers and those who claim the standard deduction can claim the tax credit. Because taxpayers at lower income levels are less likely to have sufficient itemized deductions to exceed the value of the standard deduction, they do not benefit from the mortgage interest deduction, but would benefit from the tax credit.

Given that more taxpayers would benefit from the credit, the average benefit from the credit would be substantially lower than that from the deduction. Overall in 2016, under Option 1, the average benefit for taxpayers who claim it will be $990, significantly lower than the average benefit of $1,950 under current law mortgage interest deduction (Figure 4). The average benefit would decline for all expanded cash income groups, except for taxpayers with incomes less than $30,000. The average benefit would decline most for beneficiaries in the highest income groups. For example, the average benefit for beneficiaries with incomes between $20,000 and $30,000 increases from $360 to $370; the average benefit for beneficiaries with incomes between $50,000 and $75,000 decreases from $730 to $530; and, at the other extreme, the average benefit for beneficiaries with incomes of more than $1 million declines from $8,020 to $3,270. The changes in average benefits reflect differences in marginal tax rates faced by taxpayers at different levels, because higher marginal rates raise the value of current law deduction but would not affect the value of tax credit.

Mortgage Interest Deduction with a $500,000 Cap (Option 2)

Under the option to reduce the maximum amount of debt eligible for the mortgage interest deduction to $500,000, the number of beneficiaries would be the same as under current law because those who benefit from the deduction under the $1 million cap would still benefit under the $500,000 cap, though by a lesser amount (Figure 3 and Appendix Table 3). The cap would have different effects on the average benefit in different income groups. Overall in 2016, the average benefit for taxpayers who claim the deduction will be $1,820, compared with an average benefit of $1,950 with current law $1 million cap. The effect of imposing the cap increases with income: the cap has little effect on taxpayers with incomes below $75,000 and it reduces the average benefit for taxpayers with incomes between $75,000 and $100,000 only by $10, from $1050 to $1040. In contrast, for taxpayers with cash incomes of more than $1 million, the cap reduces the average benefit by over $2,000, from more than $8,000 to less than $6,000. Compared to current law, the average benefit still increases with income under Option 2, but the increase is smaller due to the lower cap because higher-income taxpayers are more likely to have mortgages larger than the cap.

15-Percent Credit with a $500,000 Cap (Option 3)

Under the option to replace the current deduction with a 15-percent non-refundable credit on interest for a mortgage of no more than $500,000, the number of taxpayers who benefit would rise to almost 50 million, or 29 percent of the total, the same as under Option 1 because the cap would not affect eligibility for the credit. In 2016, the average benefit for taxpayers who claim the credit will be $950, which is $1,000 lower than the average benefit under current law and $40 lower than the average benefit under Option 1. The cap would reduce the average benefit mostly for upper-income taxpayers and would have almost no effect on the benefit received by taxpayers with incomes below $100,000. For example, with the mortgage credit, the $500,000 cap would reduce the average benefit for beneficiaries with incomes between $75,000 and $100,000 by only $10, but would reduce the average benefit for taxpayers with cash incomes of more than $1 million by $800, from $3,270 under option 1 to $2,470 under option 3. In total, both the mortgage cap and the conversion from deduction to a credit reduce the average benefit received by very high income beneficiaries, with the bigger decline in benefit produced by the conversion from a deduction to a credit.

DISTRIBUTIONAL EFFECTS OF FEDERAL TAX CHANGES

In this section, we report both the national and state-level distributional effects for each option. We show: (1) the distributional effects by income group nationwide; (2) the distributional effects by state of residence; and (3) the distributional effects by income group within each of nine selected states. All the distributional estimates are for tax year 2016 and assume the options are fully phased-in.

Distributional Effects by Income Group Nationwide

We show the average tax changes and the percent changes in after-tax income among all taxpayers, the percent of tax units who experience tax cuts or tax increases, and the average tax changes for the affected taxpayers (Appendix Tables 4 through 7 and figures 5.1 through 6.3). Three key findings are:

- In terms of average tax changes for all taxpayers, all three options would increase taxes for taxpayers with incomes above $100,000. Options 1 and 3 would slightly cut taxes for those with incomes below $100,000 (Figure 5.1).

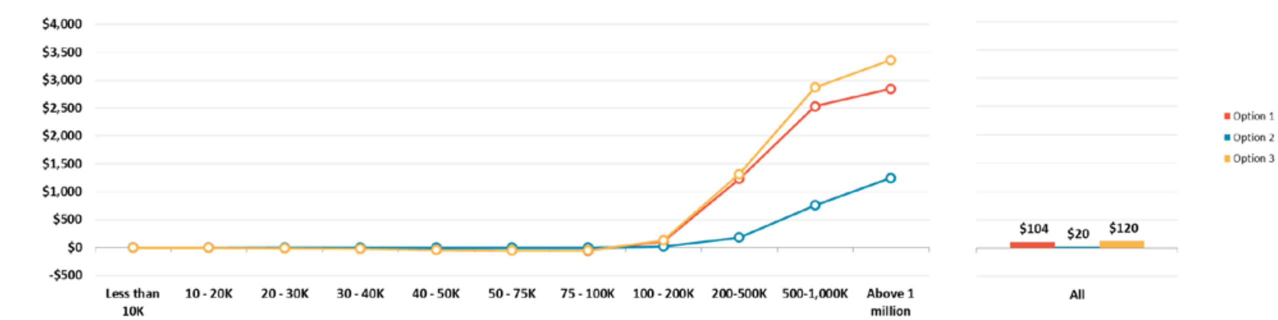
- In terms of the percent changes in after-tax income for all taxpayers, under any of the reform options, those with incomes between $30,000 and $125,000 would receive the largest benefit (except for Option 2), while those with incomes between $200,000 and $1 million are the groups most adversely affected (Figure 5.2 and Appendix Tables 4 to 6).

- In terms of winners and losers, Options 1 and 3 would have very similar distributional effects (Figure 6.1 and Figure 6.3), though Option 3 would impose larger tax increases but smaller decreases on the higher-income taxpayers than Option 1 (Figure 5.3). Option 2 would affect the fewest taxpayers: it would hardly affect any taxpayers whose incomes are below $100,000 (Figure 6.2); however, it would impose larger tax increases on the affected higher-income taxpayers, though not at the very high end, than the other two options (Figure 5.3).

FIGURE 5.1

Average Federal Tax Change for All Tax Units, Options 1 - 3

By expanded cash income Level, 2016

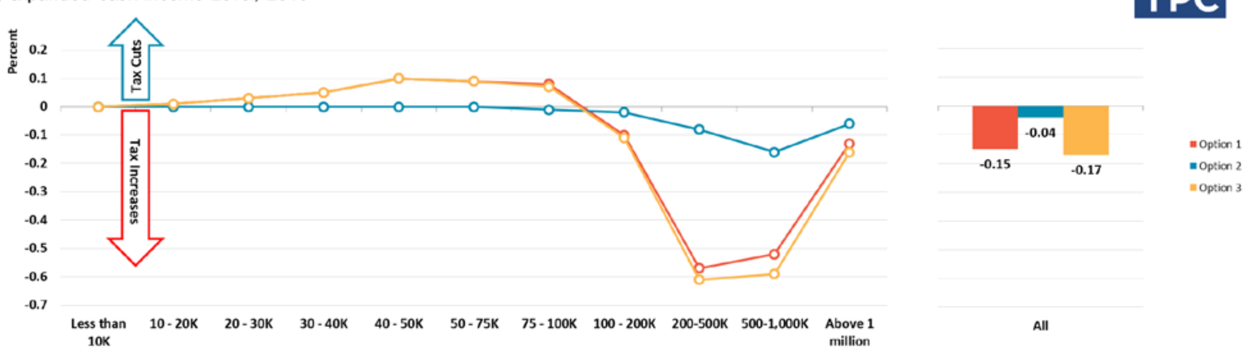


Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0516-1).

FIGURE 5.2

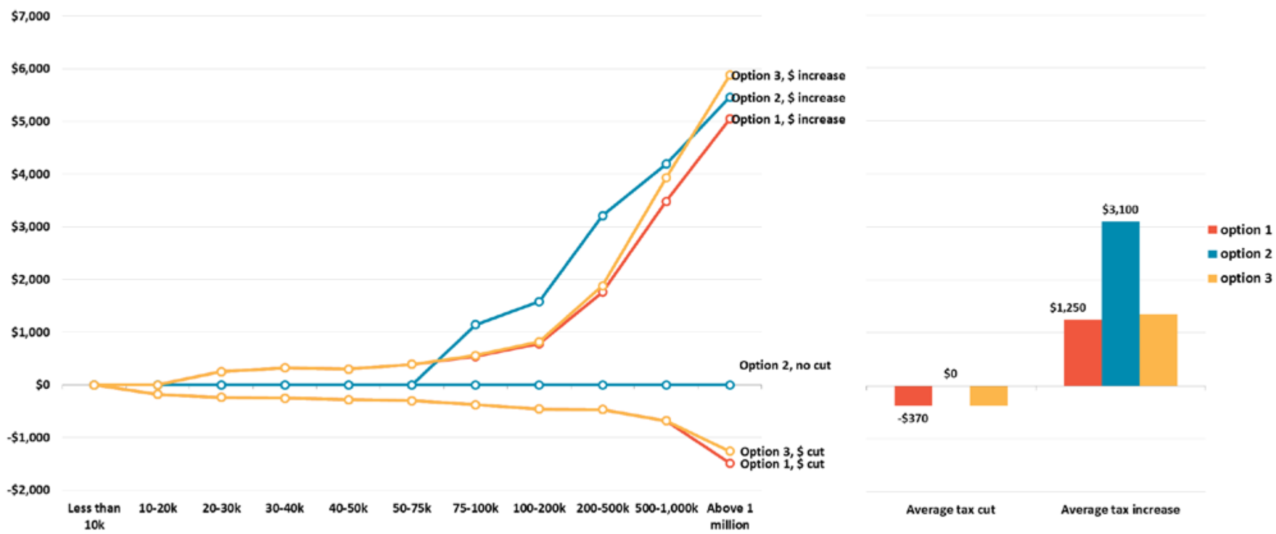
Average Percent Change in After-tax Income for All Tax Units, Options 1 - 3

By expanded cash income Level, 2016



Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0516-1).

FIGURE 5.3
Average Federal Tax Changes for Affected Tax Units, Options 1 - 3
By expanded cash income Level, 2016



Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0516-1).

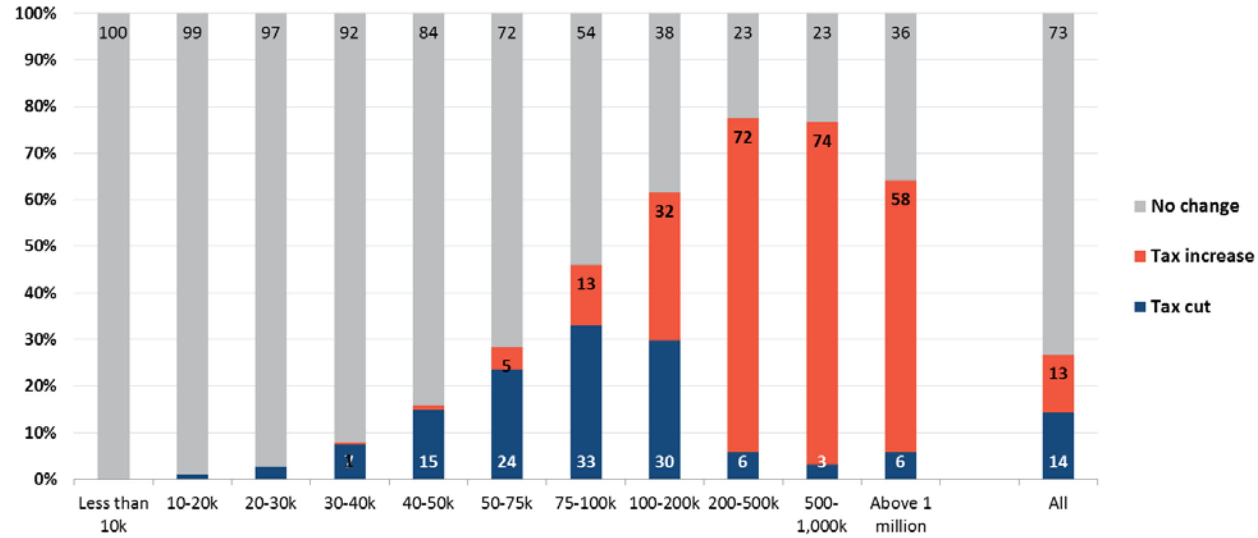
Option 1 vs. Current Law

Replacing the current mortgage interest deduction with a 15 percent non-refundable tax credit while maintaining the $1 million cap on the eligible debt will raise taxes by an average of $100 per tax unit (Appendix Table 4, Figure 5 and Figure 6.1). Taxes will decline for 14 percent of tax units by an average of $370 and increase for 13 percent of tax units by an average of $1,250. With this option, most affected taxpayers with cash incomes of less than $125,000 will experience a tax cut, while most affected taxpayers with incomes over $150,000 will see their taxes rise. Tax units with incomes between $30,000 and $125,000 receive the largest benefit as a percentage of their after-tax income, 0.1 percent, while tax units with incomes between $200,000 and $500,000 are most adversely affected, with a decline in after-tax income of 0.6 percent.

FIGURE 6.1

Percent of Affected Tax Units, Option 1

By expanded cash income level, 2016



Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0516-1).

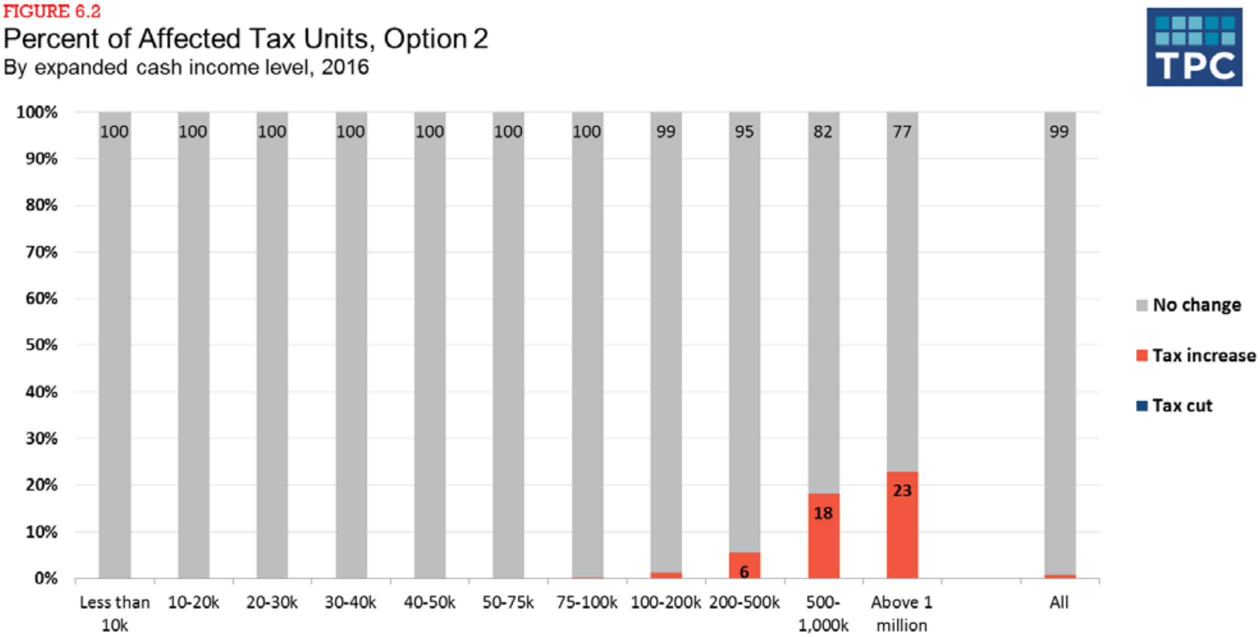
Option 2 vs. Current Law

Reducing the maximum amount of debt eligible for the mortgage interest deduction to $500,000 will raise taxes by an average of $20 per tax unit (Appendix Table 5, Figure 5 and Figure 6.2). No taxpayer will experience a tax cut and hardly any with incomes below $75,000 will experience a tax increase. The 1 percent of tax units who are affected by the option, however, will see their taxes rise by an average of $3,100 (Figure 5 and Figure 6.2). Tax units with incomes between $500,000 and $1 million see the largest decline in after-tax income, 0.2 percent, but even in this group less than a fifth of tax units will experience a tax increase.

FIGURE 6.2

Percent of Affected Tax Units, Option 2

By expanded cash income level, 2016



Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0516-1).

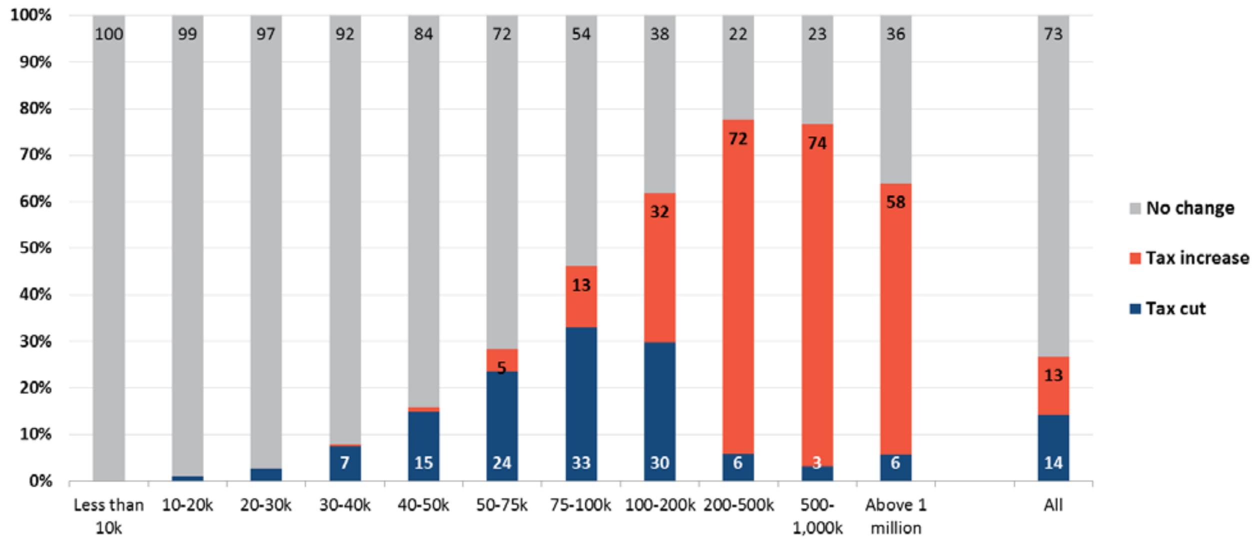
Option 3 vs. Current Law

Converting the current mortgage interest deduction to a 15 percent non-refundable tax credit on the first $500,000 of debt will raise taxes by an average of $120 per tax unit (Appendix Table 6, Figure 5 and Figure 6.3). Since the only difference between this option and Option 1 is the cap on the eligible debt, the patterns of distributional effects between these two options are similar. Taxes will decline for 14 percent of tax units by an average of $370, but at the same time will increase for 13 percent of tax units by an average of $1,350. Most affected taxpayers with cash incomes of less than $125,000 will experience a tax cut, while most affected taxpayers with incomes over $150,000 will see their taxes rise. Tax units with incomes between $30,000 and $125,000 receive the largest benefit as a percent of their after-tax income, 0.1 percent, while tax units with incomes between $200,000 and $1 million are most adversely affected, with a decline in after-tax income of 0.6 percent.

FIGURE 6.3

Percent of Affected Tax Units, Option 3

By expanded cash income level, 2016



Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0516-1).

Option 1 vs. Option 3

We also compare Options 1 and 3, using Option 1 as the baseline. By doing this, we are able to estimate the distributional effect of the $500,000 cap, assuming we have already replaced the deduction with a 15 percent non-refundable tax credit. Reducing the maximum amount of debt eligible for the 15 percent credit from $1 million to $500,000 will raise taxes by an average of $10 per tax return (Appendix Table 7). Taxes will increase for less than 1 percent of tax units by an average of $1,590. The $500,000 cap on the size of the mortgage eligible for tax credit would affect taxpayers with cash incomes of more than $75,000. More than 20 percent of tax units with incomes more than $1 million are adversely affected by the cap. Tax units with incomes between $500,000 and $1 million see the largest percentage reduction in after-tax income, 0.1 percent.

The cap on eligible debt raises taxes more when homeowners can claim a mortgage interest deduction than if the subsidy is in the form of a 15-percent non-refundable credit. This occurs because the highest income taxpayers, who are the ones primarily affected by the cap because they are the people with the most expensive homes, receive a larger subsidy with a deduction than with a 15-percent credit.

Distributional Effects by State of Residence

The effects of the three reform options vary across states (Appendix Tables 8 through 10). We look at the following questions. Would tax units in all states experience a net federal tax increase, as do taxpayers nationally, under the reform options? Would taxpayers in some states contribute disproportionally large shares to the total tax increase? In which states would taxpayers experience the largest reductions in their after-tax income? To illustrate the answers to these questions, we focus on three variables in the discussions below: the average federal tax change in absolute dollars, the share of total tax change, and the average tax rate change in percentage points.

Three key findings are:

- Both Option 1 and Option 3 would increase the average amount of federal tax taxpayers pay in 46 states and the District of Columbia. Option 2 would increase average federal tax payments in all states.
- For all the options, taxpayers in five states - California, New York, New Jersey, Virginia and Maryland – would contribute more than half of the total federal tax revenue increase, although they account for less than a fourth of all tax units (Figure 7).
- Taxpayers in the District of Columbia and three states - California, Maryland, and Virginia – are always among the most affected; they would see the highest federal tax rate increase in percentage points for all three options.

For example, under option 3, taxpayers in all states except four (Wyoming, West Virginia, South Dakota and North Dakota) would see their federal tax increase (Appendix Table 10). The national average federal tax increase would be $120, but among the states (including DC) where taxpayers' federal taxes rise, the tax increase varies from less than $10 per tax unit in Mississippi to $350 per unit in the District of Columbia.

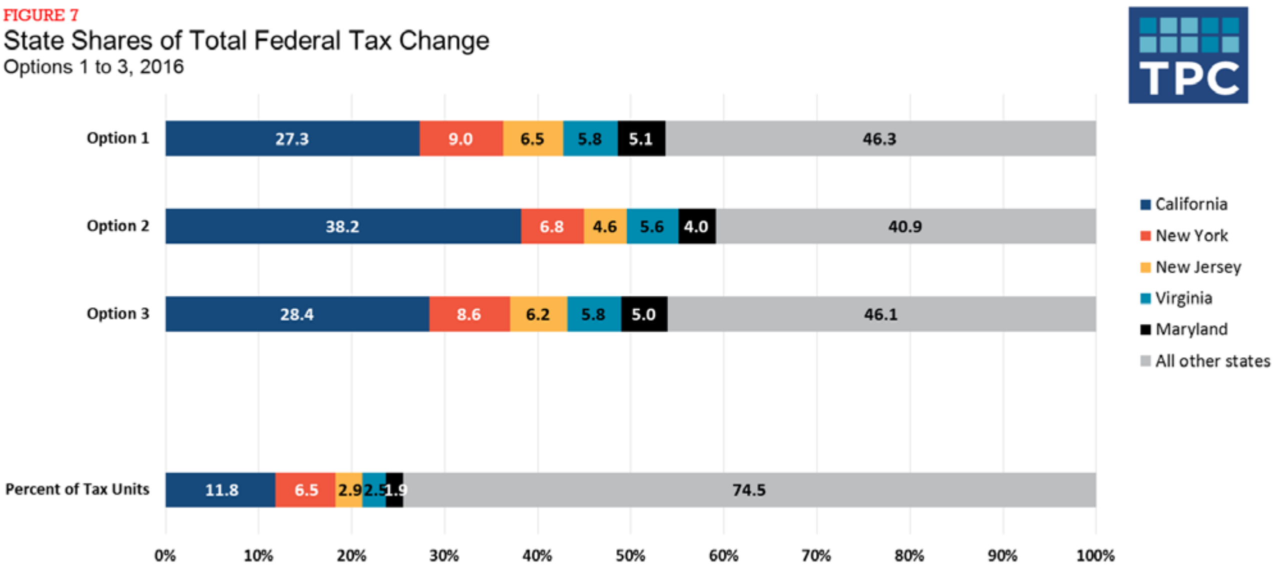
Households in some states would account for a much larger share of the total tax change than the others. Population, income, and housing prices could all affect a state's share of total federal tax change.

For the three options, residents of just three states -- California, New York and New Jersey --contributed between 42.8 and 49.6 percent of the total national tax increase. California taxpayers alone would pay for more than one-fourth of the national revenue increase under Option 3. This is driven by the following three forces. First, 12 percent of total US tax units live in California. Second, California would see a larger percentage of taxpayers with tax increase than the nation as a whole (15% vs 13%), and a smaller percentage of taxpayers with a tax decrease (12% vs 14%). Finally, among those who would pay more tax, the average increase is California is

$2,100, over 50 percent more than the national average ($1,350), and among those who would pay less, the average reduction is $360, slightly less than the national average ($370). The latter two reflect the facts that Californians on average have higher incomes and face higher housing prices.

As a share of their incomes, taxpayers in the District of Columbia, California, Maryland, and Virginia would face the largest tax increase. Their federal tax rate would increase by 0.3 percentage points under reform option 3 (Appendix Table 10).

FIGURE 7
State Shares of Total Federal Tax Change
Options 1 to 3, 2016



Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0516-1).

Distributional Effects by Income Group within a State

We also estimate the distributions of federal tax change by income group within each of nine selected states in 2016: California, Illinois, Kentucky, Michigan, New York, Oregon, Texas, Utah, and Wisconsin (Appendix Tables 12 through 20). Below, we compare and summarize the distributional effects of Option 3 by broader income groups in four diverse states: California, Kentucky, New York, and Texas (Table 11). California and New York are examples of high-income and high-tax states. Kentucky is an example of a low-income state. Texas differs from the others by not having a state income tax, which means that any level of income, fewer Texas residents are itemizers than in other states.

The four key findings are:

- The overall patterns of distributional effects are similar between the states and the nation as a whole. The options raise taxes on upper income taxpayers and reduce taxes on lower income taxpayers, with the largest increases of income borne by taxpayers with high incomes, but less with the very highest.

- Compared to the other states we examine, California households would see the largest federal tax increase, both in absolute dollars and as a percentage of income.
- California and New York would have a higher percentage of taxpayers experiencing federal tax increases and a lower percentage of taxpayers experiencing tax cuts than Kentucky and Texas.
- The directions of impacts are the same across states in all income groups except for taxpayers with incomes between $75,000 and $200,000. For this group, taxpayers in California and New York would see average federal tax increases but Kentucky and Texas taxpayers would see average tax cuts.

Looking more deeply into the data, we illustrate these four points. First, there are three main similarities between the four selected states and the US nationwide:

- Low-income taxpayers would generally receive a modest tax cut. The average federal tax rate for taxpayers with less than $75,000 income would decrease by about 0.1 percentage points in all four states.
- Taxpayer with incomes between $75,000 and $200,000 would have the largest percentage of tax units experiencing tax cuts.
- High-income tax units (but not those at the very top of the income scale with incomes of $1 million or over) would have the largest percentage of tax units experiencing tax increases and the largest tax increase as a percentage of income.

Second, the distributional effects of average federal tax changes do differ somewhat across states. California residents within each income group would see larger tax increases than residents in the other states. For example, for taxpayers with incomes between $200,000 and $1 million, Option 3 would increase federal income taxes in California on average by more than $2,500, much higher than in Kentucky and Texas (less than $1,000). In terms of increases in average tax rates, Option 3 would increase the average federal income tax rate in California by 0.8 percentage points, much higher than in Kentucky and Texas (0.3 percentage points in each state).

TABLE 11

Distributional Effects of Option 3

By expanded cash income level, 2016

ECI (thousands of 2016 dollars)	Number of Tax Units (in thousands)	Share of Tax Units	Percent of Itemizers Within Class	Percent with Tax Cuts	Percent with Tax Increase	Average Federal Tax Change ($)	Average Federal Tax Rate Change (percentage points)
The United States							
Less than 75	114,590	66.1	4.8	8.7	1.3	-20	-0.1
75-200	45,330	26.1	34.8	30.9	25.3	60	0.1
200-1,000	11,600	6.7	77.6	5.5	72.0	1,490	0.5
More than 1,000	670	0.4	89.9	5.7	58.3	3,360	0.1
All	173,400	100.0	17.8	14.2	12.5	120	0.1
California							
Less than 75	13,390	65.7	4.7	7.9	1.5	-10	-0.1
75-200	5,090	25.0	42.3	25.2	31.0	260	0.2
200-1,000	1,620	7.9	87.4	2.2	78.0	2,510	0.8
More than 1,000	100	0.5	96.2	2.3	69.1	5,050	0.2
All	20,380	100.0	21.1	11.6	15.3	280	0.3
Kentucky							
Less than 75	1,510	68.6	4.0	9.4	1.2	-20	-0.1
75-200	580	26.4	29.1	37.0	22.1	-50	0.0
200-1,000	100	4.5	76.3	6.6	70.6	920	0.3
More than 1,000	*	*	**	**	**	**	**
All	2,200	100.0	13.9	16.5	9.8	20	0.0
New York							
Less than 75	7,430	66.0	6.2	7.4	1.1	-10	-0.1
75-200	2,850	25.3	48.5	22.4	27.1	120	0.1
200-1,000	830	7.4	88.7	2.3	70.6	1,440	0.4
More than 1,000	80	0.7	96.4	2.4	66.4	4,020	0.1
All	11,260	100.0	23.6	10.8	13.3	150	0.2
Texas							
Less than 75	9,110	67.5	3.6	7.5	0.9	-20	-0.1
75-200	3,330	24.7	25.2	33.9	16.2	-50	0.0
200-1,000	910	6.7	61.8	11.5	61.3	980	0.3
More than 1,000	60	0.4	69.1	17.9	37.8	1,830	0.1
All	13,500	100.0	13.2	14.3	8.9	50	0.1

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0516-1).

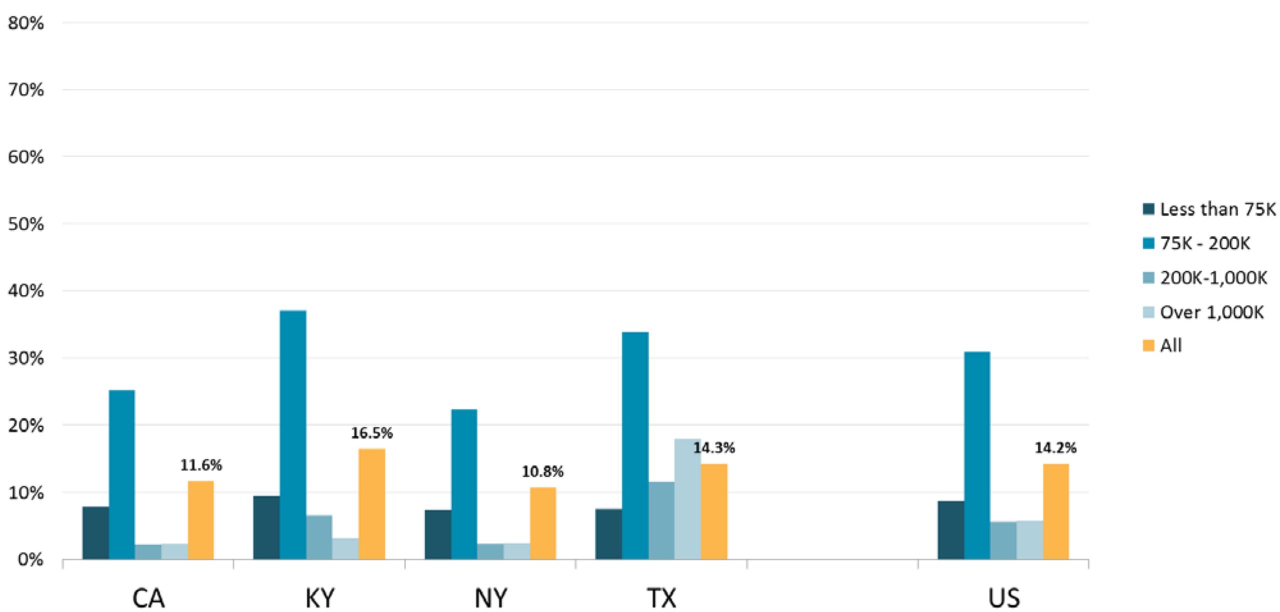
Third, the distribution of affected tax units would also differ across states (Figures 8.1 and 8.2). For example, 14 percent of taxpayers in the United States would experience tax cuts, but the number would be higher in Kentucky (16 percent) and lower in California (12 percent) and New York (11 percent). On the other side, 13 percent of taxpayers in the United States would experience tax increases, but the number would be lower in Kentucky (10 percent) and Texas (only 9 percent) and higher in California (15 percent). This pattern holds for almost every income group. Many factors contribute to this pattern. Texas does not have a state-level income tax, thus fewer taxpayers itemize their deductions. This results in fewer Texas residents being affected by the elimination of the mortgage interest deduction. In addition, California and New York have relatively more high income families than Kentucky and Texas (and thus higher shares of itemizers) and higher housing prices, resulting in their taxpayers being more adversely affected.

Fourth, the directions of impacts are the same across states in all income groups except for taxpayers with incomes between $75,000 and $200,000. For taxpayers in this income range, average federal taxes would rise in California by $260, more than four times that of the national average, and in New York by $120, but would decrease by $50 in Kentucky and Texas.

FIGURE 8.1

Percent of Tax Units with Tax Cut, Option 3

Selected states and the U.S., by expanded cash income level, 2016

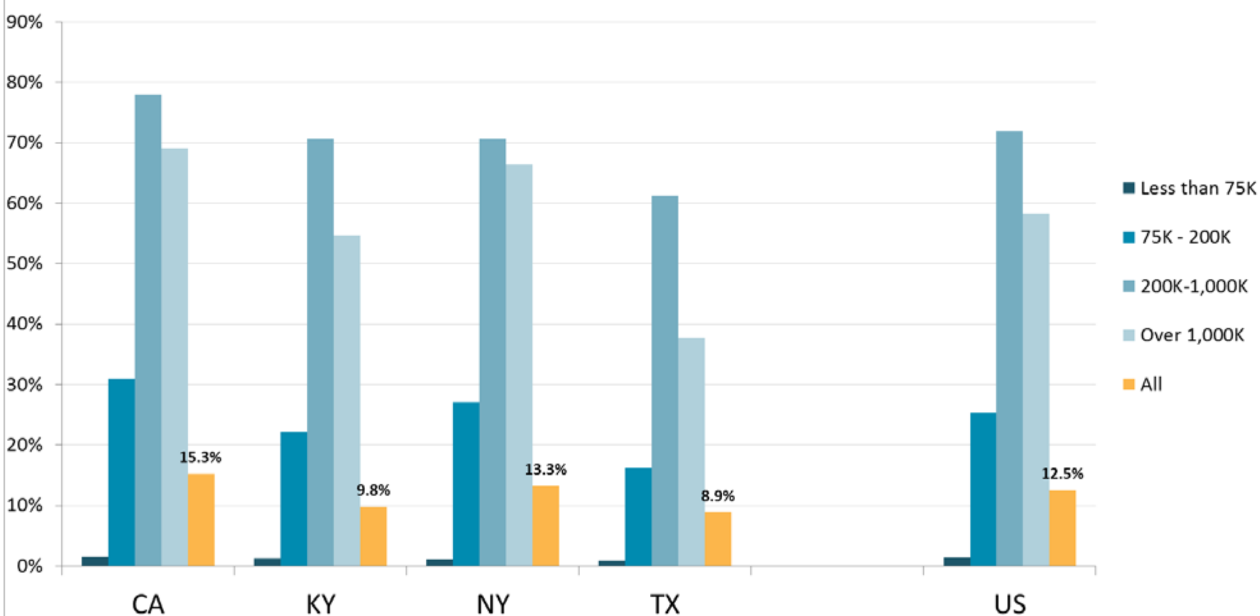


Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0516-1).

FIGURE 8.2

Percent of Tax Units with Tax Increase, Option 3

Selected states and the U.S., By expanded cash income level, 2016



Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0516-1).

CONCLUSION

Policymakers, advocates, and the public have been calling for reform of the mortgage interest deduction. All three options considered in this report would raise federal tax revenue and make the tax system more progressive. More taxpayers would benefit from a 15 percent credit than from the deduction, though the average subsidy per recipient from the credit would be lower than that from the deduction. The biggest winners from replacing the deduction with the credit are lower-and-middle income households and the biggest losers are higher income households, except for the small share at the very top of the distribution. The credit would increase the average federal tax paid in 46 states and the District of Columbia, and taxpayers in some of these states would pay more than the others. Higher-income states would have a higher percentage of taxpayers experiencing federal tax increases than the national average and a lower percentage of taxpayers experiencing federal tax cuts.

APPENDIX: TABLES

TABLE 1

Illustration of Phase-In Schedule for Option 3

Amount of Mortgage Eligible for an Interest Deduction or Credit Per Tax Unit, 2016-2026

Year	2016	2017	2018	2019	2020	2021-2026
Percent of home mortgage eligible for an interest deduction	100%	80%	60%	40%	20%	0%
Percent of home mortgage eligible for a tax credit	0%	20%	40%	60%	80%	100%
Tax credit rate	0%	3%	6%	9%	12%	15%
Amount of home mortgage eligible for an interest deduction ($)	1,000,000	900,000	800,000	700,000	600,000	500,000

Note: Reform Option 3 is to replace the deduction with a 15 percent non-refundable credit, and to reduce the cap on the size of the mortgage eligible for the tax preference from $1 million to $500,000, allowing for second mortgages and home equity loans under the cap.

TABLE 2

Options to Reform the Mortgage Interest Deduction

Impact on Tax Revenue (billions of current dollars), 2017-26 [1]

Proposal[2]	Fiscal Year										Total
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2017-2026
Option 1: Replace the Mortgage Interest Deduction with a 15 Percent Nonrefundable Credit	1.1	4.6	9.7	15.5	20.8	24.2	26.0	27.8	29.6	31.6	190.8
Option 2: Reduce the Maximum Amount of Debt Eligible for the Mortgage Interest Deduction to $500,000	0.2	0.9	2.2	4.3	7.6	10.9	12.5	14.3	16.1	18.1	87.2
Option 3: Replace the Mortgage Interest Deduction with a 15 Percent Nonrefundable Credit on the First $500,000 of Debt	1.3	5.4	11.4	18.5	25.4	30.2	33.0	35.7	38.6	41.7	241.2

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0516-1).

Notes:

(1) Fiscal years. Estimates assume a 40-60 fiscal split; the actual effect on the timing of receipts could differ. Revenue estimates include the effects of microdynamic behavioral responses and assume that taxpayers would adjust their investment portfolio and pay down their mortgage balance if their tax benefit from mortgage interest was reduced.

(2) Option 1 would replace the deduction for mortgage interest with a 15 percent non-refundable credit subject to current law limits ($1,000,000 of debt on a primary residence or second home, and $100,000 in home equity loans). Option 2 would reduce the maximum amount of debt eligible for the mortgage interest deduction to $500,000 of debt on a primary residence, second home, and/or a home equity loan. Option 3 would replace the deduction for mortgage interest with a 15 percent non-refundable credit on the first $500,000 of debt on a primary residence, second home, and/or a home equity loan. Proposals are phased-in over 5 years beginning 01/01/2017 according to the following schedule: i) in Options 1 and 3, the deductible percentage of home mortgage interest paid would be reduced by 20 percentage points each year (80% in 2017, 60% in 2018, 40% in 2019, 20% in 2020, and fully eliminated in 2021 and beyond) and the credit rate would increase by 3 percentage points each year (3% in 2017, 6% in 2018, 9% in 2019, 12% in 2020, and 15% in all later years); ii) in Options 2 and 3, the limit on eligible debt would equal $900,000 in 2017, $800,000 in 2018, $700,000 in 2019, $600,000 in 2020, and $500,000 in tax year 2021 and beyond.

TABLE 3

Benefits from Mortgage Interest Deduction and 15 Percent Non-refundable Credit

2016[1]

Expanded Cash Income Level (thousands of 2016 dollars) 2	Tax Units (thousands)	Tax Units with Mortgage Interest		Current Mortgage Interest Deduction						15 Percent Non-refundable Credit					
				Tax Units with Benefit [3]		Average Benefit (dollars)				Tax Units with Benefit [3]		Average Benefit (dollars)			
						Current Law Limits [4]		$500,000 Limit [5]				Current Law Limits		$500,000 Limit	
		Number (thousands)	Percent Within Class	Number (thousands)	Percent Within Class	All Tax Units	Tax Units With Benefit	All Tax Units	Tax Units With Benefit	Number (thousands)	Percent Within Class	All Tax Units	Tax Units With Benefit	All Tax Units	Tax Units With Benefit
Less than 10	13,200	600	4.5	*	*	**	**	**	**	*	*	**	**	**	**
10-20	24,800	1,480	6.0	110	0.5	*	170	*	170	290	1.2	*	210	*	210
20-30	21,110	2,120	10.0	300	1.4	10	360	10	360	630	3.0	10	370	10	370
30-40	16,480	3,020	18.3	670	4.0	20	440	20	440	1,400	8.5	30	400	30	400
40-50	13,400	3,590	26.8	1,020	7.6	40	470	40	470	2,260	16.9	70	440	70	440
50-75	25,600	9,670	37.8	3,910	15.3	110	730	110	730	7,830	30.6	160	530	160	530
75-100	16,150	8,600	53.2	4,620	28.6	300	1,050	300	1,040	8,130	50.4	360	710	350	700
100-125	11,780	7,470	63.4	4,700	39.9	480	1,190	470	1,170	7,350	62.4	530	860	530	850
125-150	7,930	5,340	67.3	3,940	49.7	740	1,490	730	1,480	5,290	66.7	680	1,010	670	1,000
150-175	5,490	4,010	73.1	3,310	60.3	1,110	1,840	1,080	1,790	3,970	72.4	840	1,150	810	1,120
175-200	3,970	3,080	77.5	2,810	70.8	1,480	2,090	1,420	2,010	3,060	77.0	990	1,290	960	1,250
200-500	10,360	8,130	78.5	7,840	75.7	2,540	3,360	2,370	3,120	8,030	77.5	1,310	1,690	1,220	1,570
500-1,000	1,240	960	77.6	930	74.7	4,520	6,050	3,760	5,030	950	76.4	1,990	2,600	1,650	2,160
More than 1,000	670	430	65.2	410	61.4	4,920	8,020	3,670	5,990	420	63.5	2,080	3,270	1,570	2,470
All	173,400	58,560	33.8	34,560	19.9	390	1,950	360	1,820	49,620	28.6	280	990	270	950
Addendum															
Less than 50	88,990	10,810	12.1	2,090	2.4	10	430	10	430	4,580	5.2	20	400	20	400
50 - 125	53,540	25,740	48.1	13,230	24.7	250	1,010	250	990	23,310	43.5	300	690	300	690
More than 125	29,660	21,960	74.0	19,240	64.9	1,790	2,760	1,650	2,550	21,720	73.2	1,050	1,440	990	1,350

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0516-1).

Notes:

* Non-zero value rounded to zero; ** Insufficient data.

Numbers may not add due to rounding.

(1) Calendar year.

(2) Includes both filing and non-filing units but excludes those that are dependents of other tax units. Tax units with negative cash income are excluded from the lowest income class but are included in the totals. For a description of cash income, see http://www.taxpolicycenter.org/TaxModel/income.cfm

(3) Includes tax units with a change in federal tax burden of $10 or more in absolute value. Estimates are static and do not assume that taxpayers would adjust their investment portfolio and pay down their mortgage balance if their tax benefit from mortgage interest was reduced.

(4) Interest would be eligible subject to current law limits ($1,000,000 of debt on a primary residence or second home, and $100,000 in home equity loans).

(5) Interest would be eligible up to a maximum of $500,000 of debt on a primary residence, second home, and/or a home equity loan.

TABLE 4

Option 1: Replace the Mortgage Interest Deduction with a 15 Percent Non-refundable Credit

Distribution of Federal Tax Change by Expanded Cash Income Level, 2016 [1]

Expanded Cash Income Level (thousands of 2016 dollars) [2]	Tax Units with Tax Increase or Cut [3]				Percent Change in After-Tax Income [4]	Share of Total Federal Tax Change	Average Federal Tax Change	Average Federal Tax Rate[5]	
	With Tax Cut		With Tax Increase						
	Pct of Tax Units	Avg Tax Cut	Pct of Tax Units	Avg Tax Increase				Change (Percentage Points)	Under the Proposal
Less than 10	*	**	*	**	0.0	0.0	0	0	6.6
10-20	1	-180	*	**	0.0	-0.2	0	0	3
20-30	2.6	-240	0.1	250	0.0	-0.7	-10	0	4.6
30-40	7.4	-250	0.6	320	0.1	-1.5	-20	-0.1	7.9
40-50	14.8	-280	1.1	300	0.1	-2.9	-40	-0.1	10.5
50-75	23.5	-300	4.9	390	0.1	-7.2	-50	-0.1	13.1
75-100	33	-380	13	540	0.1	-5.0	-60	-0.1	15.7
100-200	29.8	-460	31.8	780	-0.1	18.1	110	0.1	19
200-500	5.8	-470	71.7	1,760	-0.6	71.3	1,240	0.4	23.5
500-1,000	3.2	-680	73.5	3,480	-0.5	17.5	2,530	0.4	28.6
More than 1,000	5.9	-1,490	58.2	5,050	-0.1	10.6	2,850	0.1	33.8
All	14.3	-370	12.5	1,250	-0.2	100.0	100	0.1	19.9
Addendum									
100-125	37.1	-460	16.8	670	0.1	-3.9	-60	-0.1	17.4
125-150	29.7	-470	30.2	680	-0.1	3.0	70	0.1	18.8
150-175	24.4	-440	46.1	820	-0.2	8.3	270	0.2	19.9
175-200	16	-440	60	920	-0.3	10.7	480	0.3	20.9

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0516-1).

Notes:

* Non-zero value rounded to zero; ** Insufficient data

(1) Calendar year. Baseline is current law. Proposal would replace the deduction for mortgage interest with a 15 percent non-refundable credit subject to current law limits ($1,000,000 of debt on a primary residence or second home, and $100,000 in home equity loans). Estimates are static and do not assume that taxpayers would adjust their investment portfolio and pay down their mortgage balance if their tax benefit from mortgage interest was reduced. For a description of TPC's current law baseline, see http://www.taxpolicycenter.org/taxtopics/Baseline-Definitions.cfm

(2) Includes both filing and non-filing units but excludes those that are dependents of other tax units. Tax units with negative adjusted gross income are excluded from their respective income class but are included in the totals. For a description of expanded cash income, see http://www.taxpolicycenter.org/TaxModel/income.cfm

(3) Includes tax units with a change in federal tax burden of $10 or more in absolute value.

(4) After-tax income is expanded cash income less: individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); estate taxes; and excise taxes.

(5) Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, the estate tax, and excise taxes) as a percentage of average expanded cash income.

TABLE 5

Option 2: Reduce the Maximum Amount of Debt Eligible for the Mortgage Interest Deduction to $500,000

Distribution of Federal Tax Change by Expanded Cash Income Level, 2016 [1]

Expanded Cash Income Level (thousands of 2016 dollars) [2]	Tax Units with Tax Increase or Cut [3]: With Tax Cut		With Tax Increase		Percent Change in After-Tax Income [4]	Share of Total Federal Tax Change	Average Federal Tax Change	Average Federal Tax Rate[5]	
	Pct of Tax Units	Avg Tax Cut	Pct of Tax Units	Avg Tax Increase				Change (Percentage Points)	Under the Proposal
Less than 10	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	6.6
10-20	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3.0
20-30	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	4.6
30-40	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	8.0
40-50	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	10.6
50-75	0.0	0.0	*	**	0.0	0.1	0.0	0.0	13.2
75-100	0.0	0.0	0.3	1,140	0.0	1.4	*	0.0	15.7
100-200	0.0	0.0	1.2	1,580	0.0	13.2	20	0.0	18.9
200-500	0.0	0.0	5.5	3,210	-0.1	43.2	180	0.1	23.1
500-1,000	0.0	0.0	18.2	4,190	-0.2	22.4	760	0.1	28.4
More than 1,000	0.0	0.0	22.9	5,460	-0.1	19.7	1,250	0.0	33.8
All	0.0	0.0	0.8	3,100	0.0	100.0	20	0.0	19.8
Addendum									
100-125	0.0	0.0	0.7	1,370	0.0	2.5	10	0.0	17.4
125-150	0.0	0.0	1.0	1,010	0.0	1.9	10	0.0	18.8
150-175	0.0	0.0	1.7	1,630	0.0	3.6	30	0.0	19.7
175-200	0.0	0.0	2.7	2,100	0.0	5.2	60	0.0	20.6

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0516-1).

Notes:

* Non-zero value rounded to zero; ** Insufficient data

(1) Calendar year. Baseline is current law. Proposal would replace the deduction for mortgage interest with a 15 percent non-refundable credit subject to current law limits ($1,000,000 of debt on a primary residence or second home, and $100,000 in home equity loans). Estimates are static and do not assume that taxpayers would adjust their investment portfolio and pay down their mortgage balance if their tax benefit from mortgage interest was reduced. For a description of TPC's current law baseline, see http://www.taxpolicycenter.org/taxtopics/Baseline-Definitions.cfm

(2) Includes both filing and non-filing units but excludes those that are dependents of other tax units. Tax units with negative adjusted gross income are excluded from their respective income class but are included in the totals. For a description of expanded cash income, see http://www.taxpolicycenter.org/TaxModel/income.cfm

(3) Includes tax units with a change in federal tax burden of $10 or more in absolute value.

(4) After-tax income is expanded cash income less: individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); estate taxes; and excise taxes.

(5) Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, the estate tax, and excise taxes) as a percentage of average expanded cash income.

TABLE 6

Option 3: Replace the Mortgage Interest Deduction with a 15 Percent Non-refundable Credit on the First $500,000 of Debt

Distribution of Federal Tax Change by Expanded Cash Income Level, 2016 [1]

Expanded Cash Income Level (thousands of 2016 dollars) [2]	Tax Units with Tax Increase or Cut [3]				Percent Change in After-Tax Income [4]	Share of Total Federal Tax Change	Average Federal Tax Change	Average Federal Tax Rate[5]	
	With Tax Cut		With Tax Increase					Change (Percentage Points)	Under the Proposal
	Pct of Tax Units	Avg Tax Cut	Pct of Tax Units	Avg Tax Increase					
Less than 10	*	**	0.0	0	0.0	0.0	0	0	6.6
10-20	1.0	-180	0.0	0	0.0	-0.2	*	0	3
20-30	2.6	-240	0.1	250	0.0	-0.6	-10	0	4.6
30-40	7.4	-250	0.6	320	0.1	-1.3	-20	-0.1	7.9
40-50	14.8	-280	1.1	300	0.1	-2.6	-40	-0.1	10.5
50-75	23.5	-300	4.9	390	0.1	-6.4	-50	-0.1	13.1
75-100	33.0	-380	13.2	560	0.1	-4.2	-50	-0.1	15.7
100-200	29.8	-460	32.0	820	-0.1	18.3	130	0.1	19
200-500	5.8	-470	71.8	1,880	-0.6	68.2	1,320	0.5	23.5
500-1,000	3.2	-680	73.5	3,930	-0.6	17.8	2,870	0.4	28.7
More than 1,000	5.7	-1,260	58.3	5,880	-0.2	11.2	3,360	0.1	33.8
All	14.2	-370	12.5	1,350	-0.2	100.0	120	0.1	19.9
Addendum									
100-125	37.0	-460	17.0	700	0.1	-3.0	-50	-0.1	17.4
125-150	29.7	-470	30.5	710	-0.1	3.0	80	0.1	18.8
150-175	24.4	-440	46.2	870	-0.2	8.0	290	0.2	19.9
175-200	16.0	-440	60.2	980	-0.4	10.3	520	0.3	20.9

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0516-1).

Notes:

* Non-zero value rounded to zero; ** Insufficient data

(1) Calendar year. Baseline is current law. Proposal would replace the deduction for mortgage interest with a 15 percent non-refundable credit subject to current law limits ($1,000,000 of debt on a primary residence or second home, and $100,000 in home equity loans). Estimates are static and do not assume that taxpayers would adjust their investment portfolio and pay down their mortgage balance if their tax benefit from mortgage interest was reduced. For a description of TPC's current law baseline, see http://www.taxpolicycenter.org/taxtopics/Baseline-Definitions.cfm

(2) Includes both filing and non-filing units but excludes those that are dependents of other tax units. Tax units with negative adjusted gross income are excluded from their respective income class but are included in the totals. For a description of expanded cash income, see http://www.taxpolicycenter.org/TaxModel/income.cfm

(3) Includes tax units with a change in federal tax burden of $10 or more in absolute value.

(4) After-tax income is expanded cash income less: individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); estate taxes; and excise taxes.

(5) Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, the estate tax, and excise taxes) as a percentage of average expanded cash income.

TABLE 7

Compare Reform Options 1 and 3: Reduce the Maximum Amount of Debt Eligible for the 15 Percent Non-refundable Credit from $1,000,000 to $500,000

Distribution of Federal Tax Change by Expanded Cash Income Level, 2016 [1]

Expanded Cash Income Level (thousands of 2016 dollars) [2]	Tax Units with Tax Increase or Cut [3]				Percent Change in After-Tax Income [4]	Share of Total Federal Tax Change	Average Federal Tax Change	Average Federal Tax Rate[5]	
	With Tax Cut		With Tax Increase						
	Pct of Tax Units	Avg Tax Cut	Pct of Tax Units	Avg Tax Increase				Change (Percentage Points)	Under the Proposal
Less than 10	0.0	0.0	0.0	0.0	0.0	0	0	0.0	6.6
10-20	0.0	0.0	0.0	0.0	0.0	0	0	0.0	3
20-30	0.0	0.0	0.0	0.0	0.0	0	0	0.0	4.6
30-40	0.0	0.0	0.0	0.0	0.0	0	0	0.0	7.9
40-50	0.0	0.0	0.0	0.0	0.0	0	0	0.0	10.5
50-75	0.0	0.0	*	**	0.0	0.1	0	0.0	13.1
75-100	0.0	0.0	0.2	1,150	0.0	2.1	*	0.0	15.7
100-200	0.0	0.0	1.2	1,230	0.0	19.7	10	0.0	19
200-500	0.0	0.0	5.5	1,570	0.0	42.2	90	0.0	23.5
500-1,000	0.0	0.0	18.0	1,860	-0.1	19.7	340	0.1	28.7
More than 1,000	0.0	0.0	22.8	2,240	0.0	16.1	510	0.0	33.8
All	0.0	0.0	0.8	1,590	0.0	100	10	0.0	19.9
Addendum									
100-125	0.0	0.0	0.6	1,220	0.0	3.8	10	0.0	17.4
125-150	0.0	0.0	1.0	920	0.0	3.4	10	0.0	18.8
150-175	0.0	0.0	1.7	1,350	0.0	5.9	20	0.0	19.9
175-200	0.0	0.0	2.7	1,340	0.0	6.7	40	0.0	20.9

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0516-1).

Notes:

* Non-zero value rounded to zero; ** Insufficient data

(1) Calendar year. Baseline is current law. Proposal would replace the deduction for mortgage interest with a 15 percent non-refundable credit subject to current law limits ($1,000,000 of debt on a primary residence or second home, and $100,000 in home equity loans). Estimates are static and do not assume that taxpayers would adjust their investment portfolio and pay down their mortgage balance if their tax benefit from mortgage interest was reduced. For a description of TPC's current law baseline, see http://www.taxpolicycenter.org/taxtopics/Baseline-Definitions.cfm

(2) Includes both filing and non-filing units but excludes those that are dependents of other tax units. Tax units with negative adjusted gross income are excluded from their respective income class but are included in the totals. For a description of expanded cash income, see http://www.taxpolicycenter.org/TaxModel/income.cfm

(3) Includes tax units with a change in federal tax burden of $10 or more in absolute value.

(4) After-tax income is expanded cash income less: individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); estate taxes; and excise taxes.

(5) Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, the estate tax, and excise taxes) as a percentage of average expanded cash income.

TABLE 8

Option 1: Replace the Mortgage Interest Deduction with a 15 Percent Non-refundable Credit

Distribution of Federal Tax Change by State, 2016 [1]

State	Share of Tax Units	Tax Units with Tax Increase or Cut [3]				Percent Change in After-Tax Income [4]	Share of Total Federal Tax Change	Average Federal Tax Change		Average Federal Tax Rate[5]	
		With Tax Cut		With Tax Increase							
		Pct of Tax Units	Avg Tax Cut	Pct of Tax Units	Avg Tax Increase			Dollars	Percent	Change (Percentage Points)	Under the Proposal
Alabama	1.4	15.7	-390	9.1	930	0.0	0.3	23	0.2	0.0	17.4
Alaska	0.2	17.6	-480	9.0	1,200	0.0	0.1	23	0.1	0.0	20.0
Arizona	1.9	16.3	-410	11.5	1,250	-0.1	1.4	75	0.5	0.1	18.3
Arkansas	0.8	15.3	-370	8.1	850	0.0	0.1	13	0.1	0.0	17.3
California	11.8	11.7	-360	15.1	1,850	-0.3	27.3	239	1.2	0.3	20.9
Colorado	1.6	18.0	-420	15.6	1,260	-0.2	1.9	120	0.6	0.1	20.4
Connecticut	1.1	12.8	-330	21.1	1,380	-0.3	2.8	249	0.8	0.2	23.9
Delaware	0.3	17.9	-390	15.5	1,120	-0.2	0.3	104	0.6	0.1	19.2
District of Columbia	0.2	10.1	-280	17.9	1,910	-0.4	0.7	312	1.2	0.3	24.0
Florida	6.9	14.1	-390	7.2	1,390	-0.1	3.0	44	0.3	0.1	19.4
Georgia	3.3	12.4	-380	12.1	1,100	-0.2	2.8	86	0.7	0.1	18.2
Hawaii	0.5	15.6	-380	11.7	1,490	-0.2	0.5	116	0.8	0.2	18.2
Idaho	0.4	16.8	-410	10.3	980	-0.1	0.1	33	0.3	0.0	16.9
Illinois	4.2	13.4	-350	14.9	1,150	-0.2	5.0	124	0.7	0.1	20.4
Indiana	2.1	16.0	-370	9.2	810	0.0	0.3	15	0.1	0.0	17.5
Iowa	0.9	17.9	-360	11.8	730	0.0	0.2	23	0.1	0.0	18.4
Kansas	0.9	15.1	-360	11.2	850	-0.1	0.4	41	0.3	0.1	18.8
Kentucky	1.3	16.5	-380	9.8	790	0.0	0.2	15	0.1	0.0	17.3
Louisiana	1.3	15.1	-380	7.9	890	0.0	0.2	13	0.1	0.0	18.3
Maine	0.4	18.3	-370	11.9	850	-0.1	0.1	34	0.3	0.0	18.1
Maryland	1.9	12.8	-350	22.7	1,440	-0.3	5.1	280	1.3	0.3	21.0
Massachusetts	2.1	14.0	-330	19.6	1,350	-0.3	4.5	217	0.9	0.2	22.5
Michigan	3.3	14.7	-360	11.2	920	-0.1	1.6	49	0.4	0.1	18.1
Minnesota	1.7	16.7	-370	17.0	1,080	-0.2	2.0	121	0.6	0.1	20.1
Mississippi	0.9	13.6	-370	7.0	790	0.0	0.0	5	0.1	0.0	16.0
Missouri	1.8	15.9	-370	10.9	910	-0.1	0.7	41	0.3	0.1	18.3
Montana	0.3	17.1	-390	9.7	910	0.0	0.1	21	0.2	0.0	17.5
Nebraska	0.6	16.4	-360	11.8	780	-0.1	0.2	33	0.2	0.0	18.8
Nevada	0.9	16.2	-440	8.3	1,300	-0.1	0.3	36	0.2	0.1	19.4
New Hampshire	0.4	20.3	-440	14.0	1,130	-0.1	0.3	70	0.3	0.1	21.1
New Jersey	2.9	11.3	-330	19.1	1,400	-0.3	6.5	230	1.0	0.2	22.0
New Mexico	0.7	14.8	-390	8.4	1,000	-0.1	0.2	26	0.2	0.0	17.0
New York	6.5	10.8	-320	13.3	1,340	-0.2	9.0	143	0.6	0.1	22.6
North Carolina	2.9	14.9	-370	12.6	1,050	-0.1	2.2	77	0.6	0.1	18.0
North Dakota	0.2	18.5	-360	7.2	830	0.0	0.0	-7	0.0	0.0	20.2
Ohio	3.7	16.3	-350	12.2	800	-0.1	1.5	41	0.3	0.1	18.4
Oklahoma	1.1	15.5	-370	8.6	840	0.0	0.2	15	0.1	0.0	18.4
Oregon	1.2	15.7	-390	14.2	1,130	-0.2	1.2	100	0.7	0.1	18.2
Pennsylvania	4.2	14.8	-340	12.6	1,010	-0.1	3.2	77	0.5	0.1	19.4
Rhode Island	0.3	14.1	-340	16.1	1,030	-0.2	0.4	119	0.7	0.1	19.5
South Carolina	1.4	15.3	-380	10.8	1,000	-0.1	0.7	50	0.4	0.1	17.2
South Dakota	0.3	18.2	-390	5.4	930	0.0	-0.1	-20	-0.1	0.0	18.8
Tennessee	2.0	16.0	-410	6.9	1,080	0.0	0.2	9	0.1	0.0	18.3
Texas	7.8	14.3	-390	8.9	1,140	-0.1	3.5	46	0.3	0.1	20.4
Utah	0.8	17.0	-440	13.3	1,000	-0.1	0.4	58	0.4	0.1	17.7
Vermont	0.2	17.2	-370	11.9	870	-0.1	0.1	40	0.3	0.1	18.8
Virginia	2.5	14.9	-370	19.6	1,500	-0.3	5.8	238	1.2	0.2	20.6
Washington	2.2	18.2	-430	13.5	1,410	-0.2	2.4	113	0.6	0.1	20.3
West Virginia	0.6	16.7	-360	6.4	810	0.0	0.0	-8	-0.1	0.0	17.0
Wisconsin	1.8	16.0	-350	13.9	820	-0.1	1.0	57	0.4	0.1	18.7
Wyoming	0.2	19.6	-450	6.2	1,040	0.0	0.0	-24	-0.1	0.0	20.6
United States	100.0	14.3	-370	12.5	1,250	-0.2	100.0	103	0.6	0.1	19.9

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0516-1).

Notes:

(1) Calendar year. Baseline is current law. Proposal would reduce the maximum amount of debt eligible for the mortgage interest deduction to $500,000 of debt on a primary residence, second home, and/or a home equity loan. Estimates are static and do not assume that taxpayers would adjust their investment portfolio and pay down their mortgage balance if their tax benefit from mortgage interest was reduced. For a description of TPC's current law baseline, see http://www.taxpolicycenter.org/taxtopics/Baseline-Definitions.cfm

(2) Includes both filing and non-filing units but excludes those that are dependents of other tax units. Tax units with negative adjusted gross income are excluded from their respective income class but are included in the totals. For a description of expanded cash income, see http://www.taxpolicycenter.org/TaxModel/income.cfm

(3) Includes tax units with a change in federal tax burden of $10 or more in absolute value.

(4) After-tax income is expanded cash income less: individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); estate taxes; and excise taxes.

(5) Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, the estate tax, and excise taxes) as a percentage of average expanded cash income.

TABLE 9

Option 2: Reduce the Maximum Amount of Debt Eligible for the Mortgage Interest Deduction to $500,000

Distribution of Federal Tax Change by State, 2016 [1]

State	Share of Tax Units	Tax Units with Tax Increase or Cut [3]				Percent Change in After-Tax Income [4]	Share of Total Federal Tax Change	Average Federal Tax Change		Average Federal Tax Rate[5]	
		With Tax Cut		With Tax Increase							
		Pct of Tax Units	Avg Tax Cut	Pct of Tax Units	Avg Tax Increase			Dollars	Percent	Change (Percentage Points)	Under the Proposal
Alabama	1.4	-	-	0.4	3,100	0.0	0.7	12	0.1	0.0	17.4
Alaska	0.2	-	-	0.6	2,290	0.0	0.1	14	0.1	0.0	20.0
Arizona	1.9	-	-	0.9	2,940	0.0	2.1	26	0.2	0.0	18.2
Arkansas	0.8	-	-	0.2	2,840	0.0	0.1	4	0.0	0.0	17.3
California	11.8	-	-	2.4	3,290	-0.1	38.2	78	0.4	0.1	20.8
Colorado	1.6	-	-	1.2	2,650	0.0	2.2	33	0.2	0.0	20.3
Connecticut	1.1	-	-	1.2	3,530	0.0	2.0	43	0.1	0.0	23.8
Delaware	0.3	-	-	0.9	2,420	0.0	0.3	22	0.1	0.0	19.1
District of Columbia	0.2	-	-	2.3	3,660	-0.1	0.8	83	0.3	0.1	23.8
Florida	6.9	-	-	0.6	3,230	0.0	5.8	20	0.1	0.0	19.4
Georgia	3.3	-	-	0.5	2,810	0.0	1.9	14	0.1	0.0	18.1
Hawaii	0.5	-	-	2.1	2,850	-0.1	1.2	60	0.4	0.1	18.1
Idaho	0.4	-	-	0.5	2,340	0.0	0.2	11	0.1	0.0	16.9
Illinois	4.2	-	-	0.5	3,310	0.0	3.1	18	0.1	0.0	20.3
Indiana	2.1	-	-	0.1	2,560	0.0	0.3	3	0.0	0.0	17.4
Iowa	0.9	-	-	0.1	2,410	0.0	0.1	2	0.0	0.0	18.4
Kansas	0.9	-	-	0.2	2,670	0.0	0.2	4	0.0	0.0	18.8
Kentucky	1.3	-	-	0.1	2,690	0.0	0.2	3	0.0	0.0	17.3
Louisiana	1.3	-	-	0.2	2,330	0.0	0.2	4	0.0	0.0	18.3
Maine	0.4	-	-	0.2	2,350	0.0	0.1	4	0.0	0.0	18.0
Maryland	1.9	-	-	1.8	2,860	-0.1	4.0	51	0.2	0.1	20.8
Massachusetts	2.1	-	-	1.0	2,840	0.0	2.7	30	0.1	0.0	22.4
Michigan	3.3	-	-	0.2	2,570	0.0	0.7	5	0.0	0.0	18.0
Minnesota	1.7	-	-	0.6	2,600	0.0	1.1	15	0.1	0.0	20.0
Mississippi	0.9	-	-	0.1	2,780	0.0	0.1	3	0.0	0.0	16.0
Missouri	1.8	-	-	0.2	2,680	0.0	0.5	6	0.0	0.0	18.3
Montana	0.3	-	-	0.3	2,290	0.0	0.1	6	0.1	0.0	17.5
Nebraska	0.6	-	-	0.1	2,600	0.0	0.1	3	0.0	0.0	18.7
Nevada	0.9	-	-	0.8	3,040	0.0	0.9	24	0.2	0.0	19.4
New Hampshire	0.4	-	-	0.7	2,540	0.0	0.3	17	0.1	0.0	21.0
New Jersey	2.9	-	-	1.1	3,540	0.0	4.6	38	0.2	0.0	21.8
New Mexico	0.7	-	-	0.3	2,380	0.0	0.2	8	0.1	0.0	17.0
New York	6.5	-	-	0.7	3,450	0.0	6.8	25	0.1	0.0	22.5
North Carolina	2.9	-	-	0.4	2,730	0.0	1.5	12	0.1	0.0	17.9
North Dakota	0.2	-	-	0.1	2,530	0.0	0.0	2	0.0	0.0	20.2
Ohio	3.7	-	-	0.1	2,610	0.0	0.6	4	0.0	0.0	18.4
Oklahoma	1.1	-	-	0.1	2,850	0.0	0.2	4	0.0	0.0	18.4
Oregon	1.2	-	-	0.7	2,480	0.0	0.9	18	0.1	0.0	18.1
Pennsylvania	4.2	-	-	0.3	2,830	0.0	1.4	8	0.1	0.0	19.3
Rhode Island	0.3	-	-	0.5	2,150	0.0	0.1	10	0.1	0.0	19.3
South Carolina	1.4	-	-	0.4	2,810	0.0	0.7	12	0.1	0.0	17.1
South Dakota	0.3	-	-	0.2	2,710	0.0	0.0	4	0.0	0.0	18.8
Tennessee	2.0	-	-	0.4	2,860	0.0	0.8	10	0.1	0.0	18.3
Texas	7.8	-	-	0.3	3,060	0.0	3.2	10	0.1	0.0	20.4
Utah	0.8	-	-	0.8	2,290	0.0	0.6	18	0.1	0.0	17.6
Vermont	0.2	-	-	0.2	2,230	0.0	0.0	4	0.0	0.0	18.8
Virginia	2.5	-	-	1.7	3,050	-0.1	5.6	53	0.3	0.1	20.4
Washington	2.2	-	-	1.4	2,820	-0.1	3.6	40	0.2	0.0	20.2
West Virginia	0.6	-	-	0.1	2,360	0.0	0.0	2	0.0	0.0	17.0
Wisconsin	1.8	-	-	0.2	2,530	0.0	0.3	4	0.0	0.0	18.6
Wyoming	0.2	-	-	0.4	2,630	0.0	0.1	9	0.1	0.0	20.6
United States	100.0	-	-	0.8	3,100	0.0	100.0	24	0.1	0.0	19.8

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0516-1).

Notes:

(1) Calendar year. Baseline is current law. Proposal would reduce the maximum amount of debt eligible for the mortgage interest deduction to $500,000 of debt on a primary residence, second home, and/or a home equity loan. Estimates are static and do not assume that taxpayers would adjust their investment portfolio and pay down their mortgage balance if their tax benefit from mortgage interest was reduced. For a description of TPC's current law baseline, see http://www.taxpolicycenter.org/taxtopics/Baseline-Definitions.cfm

(2) Includes both filing and non-filing units but excludes those that are dependents of other tax units. Tax units with negative adjusted gross income are excluded from their respective income class but are included in the totals. For a description of expanded cash income, see http://www.taxpolicycenter.org/TaxModel/income.cfm

(3) Includes tax units with a change in federal tax burden of $10 or more in absolute value.

(4) After-tax income is expanded cash income less: individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); estate taxes; and excise taxes.

(5) Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, the estate tax, and excise taxes) as a percentage of average expanded cash income.

TABLE 10

Option 3: Replace the Mortgage Interest Deduction with a 15 Percent Non-refundable Credit on the First $500,000 of Debt

Distribution of Federal Tax Change by State, 2016 [1]

State	Share of Tax Units	Tax Units with Tax Increase or Cut [3]				Percent Change in After-Tax Income [4]	Share of Total Federal Tax Change	Average Federal Tax Change		Average Federal Tax Rate[5]	
		With Tax Cut		With Tax Increase							
		Pct of Tax Units	Avg Tax Cut	Pct of Tax Units	Avg Tax Increase			Dollars	Percent	Change (Percentage Points)	Under the Proposal
Alabama	1.4	15.7	-390	9.1	1,000	-0.1	0.4	29	0.2	0.0	17.4
Alaska	0.2	17.6	-480	9.0	1,270	0.0	0.1	30	0.2	0.0	20.0
Arizona	1.9	16.3	-410	11.5	1,350	-0.1	1.5	89	0.6	0.1	18.3
Arkansas	0.8	15.3	-370	8.1	880	0.0	0.1	15	0.1	0.0	17.3
California	11.8	11.6	-360	15.3	2,100	-0.4	28.4	280	1.5	0.3	21.0
Colorado	1.6	17.9	-420	15.7	1,360	-0.2	1.9	137	0.7	0.2	20.4
Connecticut	1.1	12.8	-330	21.1	1,470	-0.3	2.6	268	0.9	0.2	24.0
Delaware	0.3	17.9	-390	15.6	1,190	-0.2	0.3	116	0.7	0.1	19.2
District of Columbia	0.2	10.1	-280	17.9	2,130	-0.4	0.7	353	1.3	0.3	24.0
Florida	6.9	14.1	-390	7.2	1,510	-0.1	3.2	54	0.4	0.1	19.4
Georgia	3.3	12.4	-380	12.1	1,150	-0.2	2.6	92	0.7	0.1	18.2
Hawaii	0.5	15.5	-380	11.9	1,760	-0.2	0.6	151	1.1	0.2	18.2
Idaho	0.4	16.8	-410	10.4	1,030	-0.1	0.1	39	0.3	0.1	16.9
Illinois	4.2	13.4	-350	14.9	1,200	-0.2	4.8	132	0.7	0.2	20.4
Indiana	2.1	16.0	-370	9.2	820	0.0	0.3	16	0.1	0.0	17.5
Iowa	0.9	17.9	-360	11.8	740	0.0	0.2	24	0.2	0.0	18.4
Kansas	0.9	15.1	-360	11.2	870	-0.1	0.3	43	0.3	0.1	18.8
Kentucky	1.3	16.5	-380	9.8	810	0.0	0.2	17	0.1	0.0	17.3
Louisiana	1.3	15.1	-380	7.9	920	0.0	0.2	15	0.1	0.0	18.3
Maine	0.4	18.3	-370	11.9	870	-0.1	0.1	36	0.3	0.1	18.1
Maryland	1.9	12.7	-350	22.8	1,540	-0.4	5.0	307	1.4	0.3	21.0
Massachusetts	2.1	14.0	-330	19.6	1,420	-0.3	4.2	231	0.9	0.2	22.5
Michigan	3.3	14.7	-360	11.2	940	-0.1	1.5	52	0.4	0.1	18.1
Minnesota	1.7	16.7	-370	17.0	1,120	-0.2	1.9	129	0.7	0.1	20.1
Mississippi	0.9	13.6	-370	7.0	810	0.0	0.0	6	0.1	0.0	16.0
Missouri	1.8	15.9	-370	11.0	930	-0.1	0.7	44	0.3	0.1	18.3
Montana	0.3	17.1	-390	9.7	940	0.0	0.1	24	0.2	0.0	17.5
Nebraska	0.6	16.4	-360	11.8	790	-0.1	0.2	35	0.2	0.0	18.8
Nevada	0.9	16.2	-440	8.3	1,420	-0.1	0.4	48	0.3	0.1	19.4
New Hampshire	0.4	20.3	-440	14.1	1,180	-0.1	0.3	79	0.4	0.1	21.1
New Jersey	2.9	11.3	-330	19.2	1,490	-0.3	6.2	248	1.0	0.2	22.0
New Mexico	0.7	14.8	-390	8.4	1,040	-0.1	0.2	30	0.3	0.0	17.0
New York	6.5	10.8	-320	13.3	1,420	-0.2	8.6	154	0.7	0.2	22.6
North Carolina	2.9	14.9	-370	12.6	1,090	-0.1	2.1	82	0.6	0.1	18.0
North Dakota	0.2	18.5	-360	7.2	850	0.0	0.0	-6	0.0	0.0	20.2
Ohio	3.7	16.3	-350	12.2	810	-0.1	1.3	42	0.3	0.1	18.4
Oklahoma	1.1	15.5	-370	8.6	860	0.0	0.2	17	0.1	0.0	18.4
Oregon	1.2	15.7	-390	14.2	1,190	-0.2	1.1	109	0.8	0.1	18.2
Pennsylvania	4.2	14.8	-340	12.6	1,040	-0.1	3.0	81	0.5	0.1	19.4
Rhode Island	0.3	14.1	-340	16.2	1,060	-0.2	0.4	124	0.8	0.2	19.5
South Carolina	1.4	15.3	-380	10.8	1,050	-0.1	0.7	56	0.5	0.1	17.2
South Dakota	0.3	18.2	-390	5.4	960	0.0	0.0	-18	-0.1	0.0	18.8
Tennessee	2.0	16.0	-410	6.9	1,140	0.0	0.2	14	0.1	0.0	18.3
Texas	7.8	14.3	-390	8.9	1,180	-0.1	3.4	51	0.3	0.1	20.4
Utah	0.8	17.0	-440	13.4	1,070	-0.1	0.5	69	0.5	0.1	17.7
Vermont	0.2	17.2	-370	11.9	880	-0.1	0.1	42	0.3	0.1	18.8
Virginia	2.5	14.9	-370	19.7	1,630	-0.3	5.8	266	1.3	0.3	20.6
Washington	2.2	18.2	-430	13.6	1,550	-0.2	2.5	133	0.7	0.1	20.3
West Virginia	0.6	16.7	-360	6.4	820	0.0	0.0	-7	-0.1	0.0	17.0
Wisconsin	1.8	16.0	-350	13.9	830	-0.1	0.9	59	0.4	0.1	18.7
Wyoming	0.2	19.6	-450	6.3	1,100	0.0	0.0	-20	-0.1	0.0	20.6
United States	100.0	14.2	-370	12.5	1,350	-0.2	100.0	116	0.7	0.1	19.9

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0516-1).

Notes:

(1) Calendar year. Baseline is current law. Proposal would replace the deduction for mortgage interest with a 15 percent non-refundable credit on the first $500,000 of debt on a primary residence, second home, and/or a home equity loan. Estimates are static and do not assume that taxpayers would adjust their investment portfolio and pay down their mortgage balance if their tax benefit from mortgage interest was reduced. For a description of TPC's current law baseline, see http://www.taxpolicycenter.org/taxtopics/Baseline-Definitions.cfm

(2) Includes both filing and non-filing units but excludes those that are dependents of other tax units. Tax units with negative adjusted gross income are excluded from their respective income class but are included in the totals. For a description of expanded cash income, see http://www.taxpolicycenter.org/TaxModel/income.cfm

(3) Includes tax units with a change in federal tax burden of $10 or more in absolute value.

(4) After-tax income is expanded cash income less: individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); estate taxes; and excise taxes.

(5) Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, the estate tax, and excise taxes) as a percentage of average expanded cash income.

TABLE 11

Distributional Effects of Option 3

By expanded cash income level, 2016

ECI (thousands of 2016 dollars)	Number of Tax Units (in thousands)	Share of Tax Units	Percent of Itemizers Within Class	Percent with Tax Cuts	Percent with Tax Increase	Average Federal Tax Change ($)	Average Federal Tax Rate Change (percentage points)
The United States							
Less than 75	114,590	66.1	4.8	8.7	1.3	-20	-0.1
75-200	45,330	26.1	34.8	30.9	25.3	60	0.1
200-1,000	11,600	6.7	77.6	5.5	72.0	1,490	0.5
More than 1,000	670	0.4	89.9	5.7	58.3	3,360	0.1
All	173,400	100.0	17.8	14.2	12.5	120	0.1
California							
Less than 75	13,390	65.7	4.7	7.9	1.5	-10	-0.1
75-200	5,090	25.0	42.3	25.2	31.0	260	0.2
200-1,000	1,620	7.9	87.4	2.2	78.0	2,510	0.8
More than 1,000	100	0.5	96.2	2.3	69.1	5,050	0.2
All	20,380	100.0	21.1	11.6	15.3	280	0.3
Kentucky							
Less than 75	1,510	68.6	4.0	9.4	1.2	-20	-0.1
75-200	580	26.4	29.1	37.0	22.1	-50	0.0
200-1,000	100	4.5	76.3	6.6	70.6	920	0.3
More than 1,000	*	*	**	**	**	**	**
All	2,200	100.0	13.9	16.5	9.8	20	0.0
New York							
Less than 75	7,430	66.0	6.2	7.4	1.1	-10	-0.1
75-200	2,850	25.3	48.5	22.4	27.1	120	0.1
200-1,000	830	7.4	88.7	2.3	70.6	1,440	0.4
More than 1,000	80	0.7	96.4	2.4	66.4	4,020	0.1
All	11,260	100.0	23.6	10.8	13.3	150	0.2
Texas							
Less than 75	9,110	67.5	3.6	7.5	0.9	-20	-0.1
75-200	3,330	24.7	25.2	33.9	16.2	-50	0.0
200-1,000	910	6.7	61.8	11.5	61.3	980	0.3
More than 1,000	60	0.4	69.1	17.9	37.8	1,830	0.1
All	13,500	100.0	13.2	14.3	8.9	50	0.1

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0516-1).

TABLE 12

Option 3: Replace the Mortgage Interest Deduction with a 15 Percent Non-refundable Credit on the First $500,000 of Debt; California, Baseline: Current Law

Distribution of Federal Tax Change by Expanded Cash Income Level, 2016 [1]

Expanded Cash Income Level (thousands of 2016 dollars) [2]	Tax Units with Tax Increase or Cut [3]				Percent Change in After-Tax Income [4]	Share of Total Federal Tax Change	Average Federal Tax Change		Average Federal Tax Rate[5]	
	With Tax Cut		With Tax Increase							
	Pct of Tax Units	Avg Tax Cut	Pct of Tax Units	Avg Tax Increase			Dollars	Percent	Change (Percentage Points)	Under the Proposal
Less than 10	0.0	-60	0.0	0	0.0	0.0	0	0.0	0.0	6.2
10-20	0.9	-180	0.0	6,220	0.0	-0.1	0	-0.4	0.0	3.0
20-30	2.7	-250	0.1	270	0.0	-0.3	-10	-0.5	0.0	4.8
30-40	7.1	-250	0.8	360	0.1	-0.5	-10	-0.5	0.0	7.9
40-50	13.7	-270	1.6	360	0.1	-0.9	-30	-0.7	-0.1	10.2
50-75	21.6	-310	5.7	520	0.1	-1.8	-40	-0.5	-0.1	12.8
75-100	29.7	-380	16.3	790	0.0	0.4	10	0.1	0.0	15.7
100-200	22.8	-440	39.1	1,280	-0.4	23.1	400	1.5	0.3	19.3
200-500	2.4	-420	77.5	2,910	-1.0	56.5	2,250	3.4	0.8	23.8
500-1,000	0.8	-710	81.4	5,580	-0.9	14.8	4,530	2.4	0.7	28.7
More than 1,000	2.3	-1,290	69.1	7,360	-0.2	8.7	5,050	0.4	0.2	33.5
All	11.6	-360	15.3	2,100	-0.4	100.0	280	1.5	0.3	21.0
Addendum										
100-125	31.4	-440	23.1	1,130	-0.1	2.7	120	0.6	0.1	17.7
125-150	22.6	-440	37.2	1,020	-0.3	4.3	280	1.1	0.2	19.0
150-175	16.3	-400	53.3	1,310	-0.5	7.0	630	2.0	0.4	20.2
175-200	8.5	-420	67.0	1,640	-0.7	9.0	1,060	2.8	0.6	21.1

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0516-1).

Notes:

(1) Calendar year. Baseline is current law. Proposal would replace the deduction for mortgage interest with a 15 percent non-refundable credit on the first $500,000 of debt on a primary residence, second home, and/or a home equity loan. Estimates are static and do not assume that taxpayers would adjust their investment portfolio and pay down their mortgage balance if their tax benefit from mortgage interest was reduced. For a description of TPC's current law baseline, see http://www.taxpolicycenter.org/taxtopics/Baseline-Definitions.cfm

(2) Includes both filing and non-filing units but excludes those that are dependents of other tax units. Tax units with negative adjusted gross income are excluded from their respective income class but are included in the totals. For a description of expanded cash income, see http://www.taxpolicycenter.org/TaxModel/income.cfm

(3) Includes tax units with a change in federal tax burden of $10 or more in absolute value.

(4) After-tax income is expanded cash income less: individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); estate taxes; and excise taxes.

(5) Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, the estate tax, and excise taxes) as a percentage of average expanded cash income.

TABLE 13

Option 3: Replace the Mortgage Interest Deduction with a 15 Percent Non-refundable Credit on the First $500,000 of Debt; Illinois, Baseline: Current Law

Distribution of Federal Tax Change by Expanded Cash Income Level, 2016 [1]

Expanded Cash Income Level (thousands of 2016 dollars) [2]	Tax Units with Tax Increase or Cut [3]				Percent Change in After-Tax Income [4]	Share of Total Federal Tax Change	Average Federal Tax Change		Average Federal Tax Rate[5]	
	With Tax Cut		With Tax Increase							
	Pct of Tax Units	Avg Tax Cut	Pct of Tax Units	Avg Tax Increase			Dollars	Percent	Change (Percentage Points)	Under the Proposal
Less than 10	0.0	-60	0.0	0	0.0	0.0	0	0.0	0.0	6.9
10-20	1.0	-170	0.0	6,220	0.0	-0.2	0	-0.4	0.0	3.0
20-30	2.7	-230	0.1	270	0.0	-0.6	-10	-0.5	0.0	4.6
30-40	7.5	-240	0.5	320	0.1	-1.1	-20	-0.6	-0.1	7.9
40-50	14.5	-260	1.1	280	0.1	-2.0	-40	-0.8	-0.1	10.4
50-75	23.1	-280	5.7	350	0.1	-4.8	-40	-0.6	-0.1	13.1
75-100	31.1	-360	16.2	520	0.0	-2.0	-30	-0.2	0.0	15.9
100-200	26.3	-430	36.8	720	-0.1	20.3	150	0.6	0.1	19.2
200-500	3.8	-420	75.3	1,680	-0.6	63.9	1,250	1.9	0.4	23.5
500-1,000	1.7	-500	75.9	3,430	-0.5	15.4	2,590	1.3	0.4	28.9
More than 1,000	3.4	-1,030	60.8	5,400	-0.2	10.9	3,250	0.3	0.1	34.1
All	13.4	-350	14.9	1,200	-0.2	100.0	130	0.7	0.2	20.4
Addendum										
100-125	33.4	-440	21.4	620	0.0	-0.8	-10	-0.1	0.0	17.5
125-150	26.5	-450	34.4	670	-0.1	4.1	110	0.4	0.1	19.0
150-175	20.9	-400	51.6	760	-0.2	7.7	310	1.0	0.2	20.3
175-200	13.0	-400	65.9	840	-0.3	9.3	500	1.3	0.3	21.1

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0516-1).

Notes:

(1) Calendar year. Baseline is current law. Proposal would replace the deduction for mortgage interest with a 15 percent non-refundable credit on the first $500,000 of debt on a primary residence, second home, and/or a home equity loan. Estimates are static and do not assume that taxpayers would adjust their investment portfolio and pay down their mortgage balance if their tax benefit from mortgage interest was reduced. For a description of TPC's current law baseline, see http://www.taxpolicycenter.org/taxtopics/Baseline-Definitions.cfm

(2) Includes both filing and non-filing units but excludes those that are dependents of other tax units. Tax units with negative adjusted gross income are excluded from their respective income class but are included in the totals. For a description of expanded cash income, see http://www.taxpolicycenter.org/TaxModel/income.cfm

(3) Includes tax units with a change in federal tax burden of $10 or more in absolute value.

(4) After-tax income is expanded cash income less: individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); estate taxes; and excise taxes.

(5) Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, the estate tax, and excise taxes) as a percentage of average expanded cash income.

TABLE 14

Option 3: Replace the Mortgage Interest Deduction with a 15 Percent Non-refundable Credit on the First $500,000 of Debt; Kentucky, Baseline: Current Law

Distribution of Federal Tax Change by Expanded Cash Income Level, 2016 [1]

Expanded Cash Income Level (thousands of 2016 dollars) [2]	Tax Units with Tax Increase or Cut [3]				Percent Change in After-Tax Income [4]	Share of Total Federal Tax Change	Average Federal Tax Change		Average Federal Tax Rate[5]	
	With Tax Cut		With Tax Increase							
	Pct of Tax Units	Avg Tax Cut	Pct of Tax Units	Avg Tax Increase			Dollars	Percent	Change (Percentage Points)	Under the Proposal
Less than 10	0.0	-60	0.0	0	0.0	0.0	0	0.0	0.0	6.7
10-20	1.0	-190	0.0	0	0.0	-1.8	0	-0.5	0.0	2.9
20-30	2.6	-240	0.1	190	0.0	-4.6	-10	-0.6	0.0	4.4
30-40	7.6	-250	0.5	260	0.1	-10.6	-20	-0.7	-0.1	7.6
40-50	15.7	-280	1.0	260	0.1	-20.4	-40	-0.9	-0.1	9.9
50-75	25.8	-310	4.5	300	0.1	-62.1	-70	-0.9	-0.1	12.5
75-100	37.7	-400	11.1	410	0.1	-61.4	-100	-0.8	-0.1	15.0
100-200	36.6	-470	28.6	550	0.0	-12.3	-10	-0.1	0.0	18.5
200-500	7.0	-410	70.6	1,200	-0.4	196.7	810	1.3	0.3	23.1
500-1,000	2.4	-640	70.3	2,780	-0.4	49.3	1,940	1.0	0.3	28.7
More than 1,000	3.2	-990	54.8	4,460	-0.1	27.2	2,410	0.3	0.1	33.7
All	16.5	-380	9.8	810	0.0	100.0	20	0.1	0.0	17.3
Addendum										
100-125	45.2	-480	12.1	450	0.2	-67.9	-160	-0.9	-0.1	16.8
125-150	35.1	-480	30.1	500	0.0	-4.8	-20	-0.1	0.0	18.3
150-175	29.9	-420	45.0	600	-0.1	25.3	140	0.5	0.1	19.9
175-200	19.4	-420	59.8	640	-0.2	35.1	300	0.8	0.2	20.6

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0516-1).

Notes:

(1) Calendar year. Baseline is current law. Proposal would replace the deduction for mortgage interest with a 15 percent non-refundable credit on the first $500,000 of debt on a primary residence, second home, and/or a home equity loan. Estimates are static and do not assume that taxpayers would adjust their investment portfolio and pay down their mortgage balance if their tax benefit from mortgage interest was reduced. For a description of TPC's current law baseline, see http://www.taxpolicycenter.org/taxtopics/Baseline-Definitions.cfm

(2) Includes both filing and non-filing units but excludes those that are dependents of other tax units. Tax units with negative adjusted gross income are excluded from their respective income class but are included in the totals. For a description of expanded cash income, see http://www.taxpolicycenter.org/TaxModel/income.cfm

(3) Includes tax units with a change in federal tax burden of $10 or more in absolute value.

(4) After-tax income is expanded cash income less: individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); estate taxes; and excise taxes.

(5) Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, the estate tax, and excise taxes) as a percentage of average expanded cash income.

TABLE 15

Option 3: Replace the Mortgage Interest Deduction with a 15 Percent Non-refundable Credit on the First $500,000 of Debt; Michigan, Baseline: Current Law

Distribution of Federal Tax Change by Expanded Cash Income Level, 2016 [1]

Expanded Cash Income Level (thousands of 2016 dollars) [2]	Tax Units with Tax Increase or Cut [3]				Percent Change in After-Tax Income [4]	Share of Total Federal Tax Change	Average Federal Tax Change		Average Federal Tax Rate[5]	
	With Tax Cut		With Tax Increase							
	Pct of Tax Units	Avg Tax Cut	Pct of Tax Units	Avg Tax Increase			Dollars	Percent	Change (Percentage Points)	Under the Proposal
Less than 10	0.0	-60	0.0	0	0.0	0.0	0	0.0	0.0	6.7
10-20	1.1	-180	0.0	0	0.0	-0.6	0	-0.5	0.0	2.8
20-30	2.7	-240	0.1	250	0.0	-1.5	-10	-0.6	0.0	4.0
30-40	7.5	-240	0.4	290	0.1	-3.1	-20	-0.7	-0.1	7.0
40-50	15.5	-270	0.8	270	0.1	-5.7	-40	-0.9	-0.1	9.6
50-75	25.3	-290	4.9	330	0.1	-15.0	-60	-0.7	-0.1	12.2
75-100	36.1	-380	13.0	450	0.1	-13.5	-80	-0.6	-0.1	15.0
100-200	32.6	-450	31.7	630	-0.1	16.7	50	0.2	0.0	18.6
200-500	6.0	-410	73.2	1,340	-0.5	91.1	960	1.5	0.4	23.3
500-1,000	2.4	-520	72.7	2,900	-0.4	20.2	2,100	1.1	0.3	28.8
More than 1,000	3.7	-990	58.4	4,630	-0.1	11.5	2,670	0.3	0.1	33.9
All	14.7	-360	11.2	940	-0.1	100.0	50	0.4	0.1	18.1
Addendum										
100-125	41.0	-460	15.2	520	0.1	-14.0	-110	-0.6	-0.1	16.8
125-150	32.4	-460	30.0	570	0.0	2.0	20	0.1	0.0	18.4
150-175	25.3	-410	48.5	670	-0.2	13.1	220	0.7	0.1	19.8
175-200	17.5	-410	62.5	710	-0.3	15.6	370	1.0	0.2	20.8

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0516-1).

Notes:

(1) Calendar year. Baseline is current law. Proposal would replace the deduction for mortgage interest with a 15 percent non-refundable credit on the first $500,000 of debt on a primary residence, second home, and/or a home equity loan. Estimates are static and do not assume that taxpayers would adjust their investment portfolio and pay down their mortgage balance if their tax benefit from mortgage interest was reduced. For a description of TPC's current law baseline, see http://www.taxpolicycenter.org/taxtopics/Baseline-Definitions.cfm

(2) Includes both filing and non-filing units but excludes those that are dependents of other tax units. Tax units with negative adjusted gross income are excluded from their respective income class but are included in the totals. For a description of expanded cash income, see http://www.taxpolicycenter.org/TaxModel/income.cfm

(3) Includes tax units with a change in federal tax burden of $10 or more in absolute value.

(4) After-tax income is expanded cash income less: individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); estate taxes; and excise taxes.

(5) Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, the estate tax, and excise taxes) as a percentage of average expanded cash income.

TABLE 16

Option 3: Replace the Mortgage Interest Deduction with a 15 Percent Non-refundable Credit on the First $500,000 of Debt; New York, Baseline: Current Law

Distribution of Federal Tax Change by Expanded Cash Income Level, 2016 [1]

Expanded Cash Income Level (thousands of 2016 dollars) [2]	Tax Units with Tax Increase or Cut [3]				Percent Change in After-Tax Income [4]	Share of Total Federal Tax Change	Average Federal Tax Change		Average Federal Tax Rate [5]	
	With Tax Cut		With Tax Increase							
	Pct of Tax Units	Avg Tax Cut	Pct of Tax Units	Avg Tax Increase			Dollars	Percent	Change (Percentage Points)	Under the Proposal
Less than 10	0.0	-60	0.0	0	0	0.0	0	0.0	0.0	6.2
10-20	0.9	-160	0.0	6,220	0.01	-0.1	0	-0.4	0.0	2.6
20-30	2.3	-230	0.1	300	0.02	-0.4	0	-0.5	0.0	4.1
30-40	6.5	-230	0.4	330	0.04	-0.8	-10	-0.5	0.0	7.8
40-50	13.1	-250	0.7	330	0.08	-1.4	-30	-0.6	-0.1	10.8
50-75	20.5	-260	4.3	360	0.07	-3.5	-40	-0.5	-0.1	13.7
75-100	26.7	-330	13.6	540	0.02	-0.8	-10	-0.1	0.0	16.6
100-200	20.0	-400	34.5	780	-0.17	20.2	190	0.7	0.1	19.5
200-500	2.4	-420	70.4	1,810	-0.58	53.2	1,270	1.9	0.4	23.9
500-1,000	1.0	-570	72.4	3,670	-0.54	15.8	2,650	1.4	0.4	28.9
More than 1,000	2.4	-1,310	66.4	6,100	-0.15	18.0	4,020	0.3	0.1	33.6
All	10.8	-320	13.3	1,420	-0.19	100.0	150	0.7	0.2	22.6
Addendum										
100-125	26.8	-400	19.7	670	-0.03	1.0	20	0.1	0.0	18.0
125-150	19.3	-410	32.2	720	-0.14	4.5	150	0.6	0.1	19.5
150-175	14.7	-390	48.9	810	-0.26	6.8	340	1.1	0.2	20.3
175-200	8.8	-400	62.6	910	-0.36	7.8	540	1.4	0.3	21.2

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0516-1).

Notes:

(1) Calendar year. Baseline is current law. Proposal would replace the deduction for mortgage interest with a 15 percent non-refundable credit on the first $500,000 of debt on a primary residence, second home, and/or a home equity loan. Estimates are static and do not assume that taxpayers would adjust their investment portfolio and pay down their mortgage balance if their tax benefit from mortgage interest was reduced. For a description of TPC's current law baseline, see http://www.taxpolicycenter.org/taxtopics/Baseline-Definitions.cfm

(2) Includes both filing and non-filing units but excludes those that are dependents of other tax units. Tax units with negative adjusted gross income are excluded from their respective income class but are included in the totals. For a description of expanded cash income, see http://www.taxpolicycenter.org/TaxModel/income.cfm

(3) Includes tax units with a change in federal tax burden of $10 or more in absolute value.

(4) After-tax income is expanded cash income less: individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); estate taxes; and excise taxes.

(5) Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, the estate tax, and excise taxes) as a percentage of average expanded cash income.

TABLE 17

Option 3: Replace the Mortgage Interest Deduction with a 15 Percent Non-refundable Credit on the First $500,000 of Debt; Oregon, Baseline: Current Law

Distribution of Federal Tax Change by Expanded Cash Income Level, 2016 [1]

Expanded Cash Income Level (thousands of 2016 dollars) [2]	Tax Units with Tax Increase or Cut [3]				Percent Change in After-Tax Income [4]	Share of Total Federal Tax Change	Average Federal Tax Change		Average Federal Tax Rate[5]	
	With Tax Cut		With Tax Increase							
	Pct of Tax Units	Avg Tax Cut	Pct of Tax Units	Avg Tax Increase			Dollars	Percent	Change (Percentage Points)	Under the Proposal
Less than 10	0.0	-60	0.0	0	0.0	0.0	0	0.0	0.0	6.7
10-20	1.2	-200	0.0	6,220	0.0	-0.3	0	-0.4	0.0	3.9
20-30	3.5	-270	0.1	330	0.0	-0.9	-10	-0.6	0.0	5.7
30-40	9.5	-270	0.8	380	0.1	-1.9	-20	-0.8	-0.1	8.4
40-50	16.2	-290	1.6	370	0.1	-2.9	-40	-0.9	-0.1	10.5
50-75	26.2	-320	6.8	400	0.1	-7.9	-60	-0.7	-0.1	12.6
75-100	36.2	-420	16.1	580	0.1	-5.3	-60	-0.4	-0.1	15.1
100-200	29.7	-470	37.8	840	-0.2	28.8	180	0.7	0.1	18.4
200-500	4.2	-420	76.7	1,830	-0.6	68.5	1,380	2.2	0.5	23.0
500-1,000	1.4	-680	77.4	3,750	-0.6	15.1	2,890	1.6	0.4	28.1
More than 1,000	2.8	-1,060	62.8	5,200	-0.2	6.9	3,230	0.4	0.1	32.6
All	15.7	-390	14.2	1,190	-0.2	100.0	110	0.8	0.1	18.2
Addendum										
100-125	40.4	-490	18.8	720	0.1	-4.1	-60	-0.3	-0.1	16.8
125-150	27.9	-470	39.4	730	-0.1	7.1	160	0.6	0.1	18.1
150-175	21.1	-410	56.1	900	-0.3	12.3	420	1.3	0.3	19.7
175-200	12.4	-410	67.8	1,000	-0.4	13.5	630	1.7	0.3	20.5

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0516-1).

Notes:

(1) Calendar year. Baseline is current law. Proposal would replace the deduction for mortgage interest with a 15 percent non-refundable credit on the first $500,000 of debt on a primary residence, second home, and/or a home equity loan. Estimates are static and do not assume that taxpayers would adjust their investment portfolio and pay down their mortgage balance if their tax benefit from mortgage interest was reduced. For a description of TPC's current law baseline, see http://www.taxpolicycenter.org/taxtopics/Baseline-Definitions.cfm

(2) Includes both filing and non-filing units but excludes those that are dependents of other tax units. Tax units with negative adjusted gross income are excluded from their respective income class but are included in the totals. For a description of expanded cash income, see http://www.taxpolicycenter.org/TaxModel/income.cfm

(3) Includes tax units with a change in federal tax burden of $10 or more in absolute value.

(4) After-tax income is expanded cash income less: individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); estate taxes; and excise taxes.

(5) Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, the estate tax, and excise taxes) as a percentage of average expanded cash income.

TABLE 18

Option 3: Replace the Mortgage Interest Deduction with a 15 Percent Non-refundable Credit on the First $500,000 of Debt; Texas, Baseline: Current Law

Distribution of Federal Tax Change by Expanded Cash Income Level, 2016 [1]

Expanded Cash Income Level (thousands of 2016 dollars) [2]	Tax Units with Tax Increase or Cut [3]				Percent Change in After-Tax Income [4]	Share of Total Federal Tax Change	Average Federal Tax Change		Average Federal Tax Rate [5]	
	With Tax Cut		With Tax Increase							
	Pct of Tax Units	Avg Tax Cut	Pct of Tax Units	Avg Tax Increase			Dollars	Percent	Change (Percentage Points)	Under the Proposal
Less than 10	0.0	-60	0.0	0	0.0	0.0	0	0.0	0.0	6.5
10-20	0.8	-160	0.0	0	0.0	-0.4	0	-0.4	0.0	2.0
20-30	2.0	-220	0.1	240	0.0	-1.1	0	-0.5	0.0	3.6
30-40	5.8	-220	0.4	310	0.0	-2.3	-10	-0.5	0.0	7.4
40-50	12.6	-270	0.9	260	0.1	-5.2	-30	-0.7	-0.1	10.2
50-75	20.5	-290	3.1	360	0.1	-14.3	-50	-0.6	-0.1	13.1
75-100	31.9	-370	8.0	470	0.1	-14.3	-80	-0.6	-0.1	15.8
100-200	35.0	-460	20.9	630	0.0	-8.8	-30	-0.1	0.0	19.2
200-500	11.8	-510	61.0	1,470	-0.4	98.3	830	1.3	0.3	23.8
500-1,000	9.2	-750	63.7	3,340	-0.4	32.3	2,060	1.1	0.3	29.1
More than 1,000	17.9	-1,340	37.8	5,480	-0.1	15.8	1,830	0.2	0.1	34.8
All	14.3	-390	8.9	1,180	-0.1	100.0	50	0.3	0.1	20.4
Addendum										
100-125	37.8	-450	12.0	530	0.1	-13.3	-100	-0.5	-0.1	17.7
125-150	34.9	-470	18.6	580	0.1	-4.8	-60	-0.2	0.0	19.0
150-175	33.7	-480	30.4	620	0.0	1.7	30	0.1	0.0	19.9
175-200	28.1	-460	39.4	810	-0.1	7.6	190	0.5	0.1	21.4

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0516-1).

Notes:

(1) Calendar year. Baseline is current law. Proposal would replace the deduction for mortgage interest with a 15 percent non-refundable credit on the first $500,000 of debt on a primary residence, second home, and/or a home equity loan. Estimates are static and do not assume that taxpayers would adjust their investment portfolio and pay down their mortgage balance if their tax benefit from mortgage interest was reduced. For a description of TPC's current law baseline, see http://www.taxpolicycenter.org/taxtopics/Baseline-Definitions.cfm

(2) Includes both filing and non-filing units but excludes those that are dependents of other tax units. Tax units with negative adjusted gross income are excluded from their respective income class but are included in the totals. For a description of expanded cash income, see http://www.taxpolicycenter.org/TaxModel/income.cfm

(3) Includes tax units with a change in federal tax burden of $10 or more in absolute value.

(4) After-tax income is expanded cash income less: individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); estate taxes; and excise taxes.

(5) Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, the estate tax, and excise taxes) as a percentage of average expanded cash income.

TABLE 19

Option 3: Replace the Mortgage Interest Deduction with a 15 Percent Non-refundable Credit on the First $500,000 of Debt; Utah, Baseline: Current Law

Distribution of Federal Tax Change by Expanded Cash Income Level, 2016 [1]

Expanded Cash Income Level (thousands of 2016 dollars) [2]	Tax Units with Tax Increase or Cut [3]				Percent Change in After-Tax Income [4]	Share of Total Federal Tax Change	Average Federal Tax Change		Average Federal Tax Rate[5]	
	With Tax Cut		With Tax Increase							
	Pct of Tax Units	Avg Tax Cut	Pct of Tax Units	Avg Tax Increase			Dollars	Percent	Change (Percentage Points)	Under the Proposal
Less than 10	0.0	-60	0.0	0	0.0	0.0	0	0.0	0.0	7.8
10-20	0.9	-180	0.0	0	0.0	-0.3	0	-0.3	0.0	4.3
20-30	2.7	-250	0.1	200	0.0	-1.1	-10	-0.5	0.0	5.9
30-40	8.0	-260	0.8	310	0.1	-2.5	-20	-0.6	-0.1	8.4
40-50	15.3	-300	1.9	310	0.1	-4.4	-40	-0.9	-0.1	10.0
50-75	24.9	-350	7.1	460	0.1	-12.2	-60	-0.7	-0.1	12.1
75-100	37.1	-470	13.9	560	0.1	-14.9	-100	-0.8	-0.1	14.3
100-200	33.6	-520	31.8	730	-0.1	16.1	60	0.2	0.0	17.5
200-500	5.3	-440	75.0	1,650	-0.6	89.8	1,210	2.0	0.4	22.3
500-1,000	2.5	-690	69.3	3,740	-0.5	18.5	2,570	1.4	0.4	27.8
More than 1,000	4.3	-1,220	56.5	5,370	-0.2	11.0	2,980	0.4	0.1	33.0
All	17.0	-440	13.4	1,070	-0.1	100.0	70	0.5	0.1	17.7
Addendum										
100-125	43.7	-560	13.5	610	0.2	-19.0	-160	-0.9	-0.1	15.9
125-150	33.3	-510	30.5	620	0.0	1.6	20	0.1	0.0	17.2
150-175	23.2	-440	51.4	840	-0.3	17.3	330	1.1	0.2	18.7
175-200	17.1	-440	64.9	790	-0.3	16.2	440	1.2	0.2	19.7

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0516-1).

Notes:

(1) Calendar year. Baseline is current law. Proposal would replace the deduction for mortgage interest with a 15 percent non-refundable credit on the first $500,000 of debt on a primary residence, second home, and/or a home equity loan. Estimates are static and do not assume that taxpayers would adjust their investment portfolio and pay down their mortgage balance if their tax benefit from mortgage interest was reduced. For a description of TPC's current law baseline, see http://www.taxpolicycenter.org/taxtopics/Baseline-Definitions.cfm

(2) Includes both filing and non-filing units but excludes those that are dependents of other tax units. Tax units with negative adjusted gross income are excluded from their respective income class but are included in the totals. For a description of expanded cash income, see http://www.taxpolicycenter.org/TaxModel/income.cfm

(3) Includes tax units with a change in federal tax burden of $10 or more in absolute value.

(4) After-tax income is expanded cash income less: individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); estate taxes; and excise taxes.

(5) Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, the estate tax, and excise taxes) as a percentage of average expanded cash income.

TABLE 20

Option 3: Replace the Mortgage Interest Deduction with a 15 Percent Non-refundable Credit on the First $500,000 of Debt; Wisconsin, Baseline: Current Law

Distribution of Federal Tax Change by Expanded Cash Income Level, 2016 [1]

Expanded Cash Income Level (thousands of 2016 dollars) [2]	Tax Units with Tax Increase or Cut [3]				Percent Change in After-Tax Income [4]	Share of Total Federal Tax Change	Average Federal Tax Change		Average Federal Tax Rate[5]	
	With Tax Cut		With Tax Increase							
	Pct of Tax Units	Avg Tax Cut	Pct of Tax Units	Avg Tax Increase			Dollars	Percent	Change (Percentage Points)	Under the Proposal
Less than 10	0.1	-60	0.0	0	0.0	0.0	0	0.0	0.0	7.6
10-20	1.1	-160	0.0	0	0.0	-0.4	0	-0.3	0.0	4.2
20-30	2.8	-230	0.1	260	0.0	-1.2	-10	-0.4	0.0	5.8
30-40	8.4	-250	0.4	300	0.1	-3.0	-20	-0.6	-0.1	8.7
40-50	15.9	-260	0.9	270	0.1	-5.1	-40	-0.8	-0.1	10.9
50-75	25.2	-280	6.2	310	0.1	-13.3	-50	-0.6	-0.1	13.2
75-100	35.4	-370	14.4	440	0.1	-11.8	-70	-0.5	-0.1	15.4
100-200	30.4	-430	35.2	590	-0.1	25.0	80	0.3	0.1	18.5
200-500	4.0	-380	76.3	1,230	-0.4	81.9	920	1.5	0.3	22.8
500-1,000	1.5	-550	72.1	2,680	-0.4	17.4	1,920	1.0	0.3	28.5
More than 1,000	2.5	-980	55.9	4,180	-0.1	10.5	2,310	0.2	0.1	33.4
All	16.0	-350	13.9	830	-0.1	100.0	60	0.4	0.1	18.7
Addendum										
100-125	40.4	-440	16.2	490	0.1	-12.9	-100	-0.5	-0.1	16.9
125-150	29.2	-440	34.9	520	-0.1	5.2	60	0.2	0.0	18.2
150-175	22.1	-390	54.2	620	-0.2	15.5	250	0.8	0.2	19.7
175-200	13.6	-400	68.0	690	-0.3	17.3	420	1.1	0.2	20.4

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0516-1).

Notes:

(1) Calendar year. Baseline is current law. Proposal would replace the deduction for mortgage interest with a 15 percent non-refundable credit on the first $500,000 of debt on a primary residence, second home, and/or a home equity loan. Estimates are static and do not assume that taxpayers would adjust their investment portfolio and pay down their mortgage balance if their tax benefit from mortgage interest was reduced. For a description of TPC's current law baseline, see http://www.taxpolicycenter.org/taxtopics/Baseline-Definitions.cfm

(2) Includes both filing and non-filing units but excludes those that are dependents of other tax units. Tax units with negative adjusted gross income are excluded from their respective income class but are included in the totals. For a description of expanded cash income, see http://www.taxpolicycenter.org/TaxModel/income.cfm

(3) Includes tax units with a change in federal tax burden of $10 or more in absolute value.

(4) After-tax income is expanded cash income less: individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); estate taxes; and excise taxes.

(5) Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, the estate tax, and excise taxes) as a percentage of average expanded cash income.

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