



FISCAL FACT

May 25, 2010
No. 230

Tax Savings from Mortgage Interest Deduction Vary Significantly from State to State

By Patrick Fleenor

Newly released IRS tax data by state for 2008 illustrate how much more the mortgage interest deduction is worth to some states than others (see Table 1 below). Sound tax policy dictates that interest payments be deductible only when they are incurred to produce taxable income, such as those resulting from a small business loan. Mortgage interest on a principal residence doesn't meet this requirement, but a special exception was carved out at the inception of the income tax in 1913, and the mortgage interest deduction has become one of the largest and most sacrosanct loopholes in the tax code.

For tax year 2008, a little over one quarter of the nation's tax returns claimed the mortgage interest deduction, 26.8 percent of the nation's 143 million tax returns. Rates of home ownership are much higher than this, but many home owners don't claim the deduction. Often they live in low-cost homes for which the deduction isn't large enough to make a tax difference, so they don't itemize deductions on their tax returns. In addition, home owners who have paid off their mortgages make no interest payments to deduct.

The average tax return in the U.S. deducted \$3,279 in mortgage interest; that includes all tax returns, even the non-homeowners and non-itemizers. Counting only the tax returns that deducted mortgage interest, the average amount was \$12,221.

Overall, Maryland and California are the biggest winners. Maryland had the highest percentage of tax returns claiming the deduction, 37.9 percent, and average dollar amounts claimed were also high. It had the second-highest average deduction among all tax returns, \$5,372, and counting only the tax returns that claim the mortgage interest deduction, the average Maryland tax return claimed \$14,162 in mortgage interest. That is the fifth highest nationwide.

California had a lower percentage of tax returns claiming the deduction, but when Californians deduct mortgage interest, the amounts are high. Of California's 16.4 million tax returns, about three in ten deducted mortgage interest, 29.2 percent, 19th highest nationwide. But California ranked highest in average deduction among deducting returns, \$18,876, and also highest among all returns, \$5,520. Hawaii also ranked high, with its famously expensive homes, as did Nevada

Patrick Fleenor is chief economist at the Tax Foundation.

which has been growing so quickly that more of its home owners are in the early years of their mortgages when interest payments are high.

The savings from state to state vary for two main reasons. First and most importantly, some states have higher average incomes. In those states, people leverage their incomes to take out huge loans for expensive homes. The large monthly mortgage payments that result are, with frequent refinancing, mostly interest payments, not payments on principal. This maximizes the amount deducted, and since these same high-income people are thrust into a higher marginal tax bracket by the federal income tax's progressive rate structure, the deduction saves them substantially more.

In some locations, renting is more prevalent. New York City is the obvious example, where the existence of expensive homes is outweighed by a large number of people claiming no deduction because they rent their homes.

State	Percentage of Returns Claiming Deduction	Rank	Average Deduction (all returns)	Rank	Average Deduction (for returns claiming one)	Rank
United States	26.83%		\$ 3,279		\$ 12,221	
Alabama	24.02%	32	\$ 2,226	36	\$ 9,267	38
Alaska	22.42%	38	\$ 2,689	24	\$ 11,994	16
Arizona	31.53%	11	\$ 4,293	9	\$ 13,616	7
Arkansas	19.24%	45	\$ 1,610	46	\$ 8,365	45
California	29.24%	19	\$ 5,520	1	\$ 18,876	1
Colorado	34.54%	3	\$ 4,594	4	\$ 13,300	9
Connecticut	35.15%	2	\$ 4,396	8	\$ 12,509	12
Delaware	31.80%	9	\$ 3,817	14	\$ 12,006	15
Florida	24.92%	28	\$ 3,333	20	\$ 13,375	8
Georgia	31.13%	12	\$ 3,375	17	\$ 10,844	24
Hawaii	24.20%	31	\$ 4,048	11	\$ 16,730	2
Idaho	29.11%	20	\$ 3,081	21	\$ 10,587	25
Illinois	28.78%	21	\$ 3,337	19	\$ 11,593	19
Indiana	23.97%	33	\$ 2,070	38	\$ 8,637	42
Iowa	20.35%	43	\$ 1,649	45	\$ 8,104	49
Kansas	23.82%	34	\$ 2,060	39	\$ 8,647	41
Kentucky	24.57%	30	\$ 2,050	40	\$ 8,345	46
Louisiana	18.68%	46	\$ 1,780	43	\$ 9,526	33
Maine	25.81%	25	\$ 2,529	28	\$ 9,798	31
Maryland	37.94%	1	\$ 5,372	2	\$ 14,162	5
Massachusetts	31.74%	10	\$ 4,064	10	\$ 12,805	11
Michigan	27.97%	22	\$ 2,659	25	\$ 9,505	34
Minnesota	33.71%	4	\$ 3,714	16	\$ 11,016	21
Mississippi	18.39%	47	\$ 1,526	47	\$ 8,301	47
Missouri	25.50%	26	\$ 2,372	30	\$ 9,303	36
Montana	23.42%	36	\$ 2,316	32	\$ 9,890	30
Nebraska	23.10%	37	\$ 1,901	42	\$ 8,233	48
Nevada	29.55%	17	\$ 4,580	5	\$ 15,502	3
New Hampshire	30.68%	15	\$ 3,726	15	\$ 12,142	14

New Jersey	33.34%	6	\$ 4,406	7	\$ 13,215	10
New Mexico	21.48%	39	\$ 2,356	31	\$ 10,969	22
New York	23.73%	35	\$ 2,897	23	\$ 12,206	13
North Carolina	29.43%	18	\$ 2,979	22	\$ 10,122	27
North Dakota	14.60%	50	\$ 1,222	50	\$ 8,372	44
Ohio	26.74%	23	\$ 2,266	35	\$ 8,475	43
Oklahoma	21.27%	40	\$ 1,700	44	\$ 7,992	50
Oregon	32.46%	8	\$ 3,858	13	\$ 11,885	17
Pennsylvania	25.07%	27	\$ 2,439	29	\$ 9,728	32
Rhode Island	30.74%	14	\$ 3,367	18	\$ 10,951	23
South Carolina	26.17%	24	\$ 2,607	27	\$ 9,959	28
South Dakota	14.84%	49	\$ 1,396	48	\$ 9,404	35
Tennessee	20.70%	41	\$ 2,143	37	\$ 10,349	26
Texas	20.36%	42	\$ 2,027	41	\$ 9,955	29
Utah	33.17%	7	\$ 3,875	12	\$ 11,683	18
Vermont	24.87%	29	\$ 2,313	33	\$ 9,299	37
Virginia	33.61%	5	\$ 4,737	3	\$ 14,094	6
Washington	31.04%	13	\$ 4,426	6	\$ 14,262	4
West Virginia	15.20%	48	\$ 1,348	49	\$ 8,870	39
Wisconsin	29.92%	16	\$ 2,615	26	\$ 8,739	40
Wyoming	20.14%	44	\$ 2,285	34	\$ 11,350	20
Dist. of Columbia	26.93%		\$ 4,502		\$ 16,720	
Tax Foundation calculations based on IRS data						

© 2010 Tax Foundation
www.taxfoundation.org