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Don't Believe Reports that the Mortgage Interest Deduction Might Be Eliminated

REAL ESTATE TODAY

By JIM SMITH, Realtor®

There is continued talk in D.C. about including the mortgage interest deduction ("MID":) among those deductions and "loopholes" that might be eliminated. Rarely, however, is it pointed out that the mortgage interest deduction, as it exists currently, is already an example of progressive taxation.

In other words, the MID favors the lower income tax brackets over the higher income brackets. Congress will never, in my opinion, eliminate the mortgage interest deduction entirely. At most it will change the amount of mortgage interest that can be deducted — and the deductibility of mortgage interest on second homes.

Currently, one can only deduct the interest on the first million dollars of home acquisition debt on up to two residences. Up to $100,000 of home equity debt qualifies for tax deductibility. Of course, the rules are far more complicated than that, so do a web search, as I did, for "mortgage interest deduction rules" to learn the finer points of this tax deduction's rules.

The "bottom line" is that the mortgage interest deduction is not an all-or-nothing affair. It is inconceivable that Congress would vote to eliminate this tax "loophole" but rather make it more progressive than it already is. Lower and middle income taxpayers can count on it not being eliminated for them. Any adjustment of the rules will impact only higher income taxpayers.

This doesn't mean that interest on investment property is in danger of losing its deductibility. Interest is a business expense when it applies to investment property and is deductible in and of itself on Schedule E, where you list your rental income and deduct your operating expenses — including interest on the financing of your investment.

Speaking of Tax Deductions...

The IRS allows taxpayers to deduct 55.5 cents per mile for business use of one's personal vehicle. The deduction is not affected by how efficient your vehicle is, so I am really benefitting from my purchase of a Chevy Volt.

I have driven almost 19,000 business miles this year, so I will get to deduct about $10,500 on my federal tax return in April. About half those miles were driven in a Lexus hybrid, costing me $1,144 for gas. The rest of the miles were driven in my Volt, costing me only $145 for gas (and no oil changes). The electricity consumed by the Volt would have cost me another $235 if it weren't generated by the solar panels on my home and office. Being able to deduct 55.5 cents/mile is a nice bonus!

Furnace Efficiency Standards to Rise

A "standard" forced air furnace nowadays is 80% efficient, but next May "standard" will mean 90% because that's when no furnace lower than 90% may be sold in "northern tier" states like Colorado. You can recognize a 90% or higher efficiency furnace because it has a PVC flue that goes laterally outside the house instead of a metal flue going vertically through the roof. These furnaces also have PVC air intake pipes to bring combustion air directly from outdoors.

The picture at right shows a 90% efficient furnace installed in one of my listings. The white PVC pipe on the left brings fresh outside air into the combustion chamber. The bigger PVC pipe on the right is the exhaust flue. It's because the furnace extracts so much heat from the heat source that the flue can be plastic instead of metal.

Currently, 90% efficient furnaces cost more than "standard" furnaces, but once these furnaces are mass produced as the new standard, we can expect that the cost will be reduced substantially.

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