

## Mortgage Interest Income Tax Deduction Benefit



One of the most important benefits of buying a home and having a mortgage is the mortgage interest expense income tax deduction



For most borrowers, the mortgage interest expense income tax deduction has a significant, positive financial impact on monthly housing expense and is an important factor in determining how much home they can afford



According to federal tax code, mortgage interest and property tax expenses are deductible against a borrower's gross income. The lower your reported gross income, the less tax you pay



Just to be clear, your mortgage interest expenses are not directly deducted from taxes owed on a dollar-for-dollar basis, but rather reduce the gross income figure that is used to determine the amount of federal tax that you owe



Additionally, you do not receive any money directly from the federal government as the result of the interest expense income tax deduction but you do pay less in federal taxes, which in turn lowers your monthly housing expense (so instead of receiving a monthly check from the government for the tax deduction, you owe the government less taxes)



Also, given how amortization works, it is important to note that for most mortgages the tax deduction benefit is the greatest at the beginning of the mortgage and gradually decreases over the life of the mortgage

- This is because over the life of most mortgages, the portion of your monthly mortgage payment that goes to interest decreases while the portion of your payment that goes to principal increases



The example below illustrates how the mortgage interest expense income tax deduction works



The example shows the impact on a borrower who makes \$75,000 per year, or \$6,250 per month, in gross income



The borrower has a \$380,000 mortgage with a 4% interest rate and pays \$4,700 per year in property taxes



The interest expense income tax deduction results in a tax savings of \$3,915 per year, or \$325 per month, reducing the borrower's monthly housing expense from \$2,300 to \$1,975

### Mortgage Interest Expense Income Tax Deduction Example

	Without Tax Deduction	With Tax Deduction	
Gross income	\$75,000	<b>\$75,000</b>	
Monthly housing expense before tax benefits	\$2,300	<b>\$2,300</b>	
Deductions			
Mortgage interest	\$0	<b>\$14,880</b>	
Property tax	\$0	<b>\$4,700</b>	
Total Deductions	\$0	<b>\$19,580</b>	→ Deductions reduce gross income for calculating taxes
Gross income after deductions for interest and property tax	\$75,000	<b>\$55,420</b>	
Tax paid after deductions (@ 20% tax rate)	\$15,000	<b>\$11,085</b>	→ Lower tax bill
Tax savings			
Per Year	\$0	<b>\$3,915</b>	
Per Month	\$0	<b>\$325</b>	
Monthly housing expense after tax benefit	\$2,300	<b>\$1,975</b>	→ Tax Savings Reduce Monthly Housing Expense