

## MORTGAGE INTEREST DEDUCTION

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**TOPLINE:** The One Big Beautiful Bill (OB BB) permanently extended the 2017 Tax Cuts and Jobs Act's (TCJA's) changes to the mortgage interest deduction, which included limiting the deduction to the first \$750,000 of mortgage debt.

**BACKGROUND:** Until 1986, the tax code generally allowed individual taxpayers to deduct interest payments related to loans for individuals and families, including home mortgages. There was no cap on the amount of mortgage debt qualifying for the deduction until 1987, when the Tax Reform Act of 1986 limited the deduction to \$1 million of mortgage debt.

Then, in 2017, TCJA further lowered the cap on deductible interest on home mortgage debt to \$750,000, but the cap was scheduled to revert to \$1 million after 2025. TCJA also eliminated or capped most other itemized tax deductions for individuals, while nearly doubling the standard deduction. Together these changes simplified tax filing for individuals, as about 90% of taxpayers would be able to claim the standard deduction instead of itemizing.

### What OB BB Did:

- Permanently extended TCJA's limitation on deductible interest to the first \$750,000 of mortgage debt.
- Allowed mortgage insurance premiums to be treated as deductible and counted as interest for purposes of the limitation on mortgage interest.

### Why It Matters?

- The mortgage interest deduction is one of three key itemized deductions that survived TCJA's base broadening reforms (the other two are the SALT deduction and the charitable giving deduction).
- Tax returns filed in 2023 included about \$145 billion of mortgage interest deductions, about 22% of all itemized deductions according to IRS data.

**Where Can I Find the Changes?** OB BB Section 70108; 26 U.S.C. § 163(h).

**BOTTOMLINE:** Generally, a broad tax base with few deductions is preferable, as it allows for lower tax rates and a simpler tax code. However, there is a good case for allowing deductions on interest payments, insofar as the corresponding interest *income* received by mortgage financing companies is taxed. Going forward, lawmakers should work toward more consistent tax treatment of interest, while also simplifying tax filing.

