STATE OF MINNESOTA
Legislative Budget Office

Minnesota Home Mortgage Interest Deduction Tax Expenditure Evaluation Summary

Objective

The objective of the Minnesota Home Mortgage Interest Deduction is to recognize expenses incurred in generating personal income or wealth and encourage homeownership at all levels of income.

Background

The Minnesota Home Mortgage Interest Deduction (MID) is an itemized deduction for interest paid on debt secured by a principal or second residence. Mortgage interest is deductible on up to $750,000 of debt used to buy, build, or improve a qualifying residence. If the debt is used for any other purpose, the threshold is $100,000. If more than one home is involved, the threshold applies to the combined amount of debt. The MID is claimed on Schedule M1SA, Minnesota Itemized Deductions worksheet, as part of a Minnesota income tax return.

Summary Information

Year Enacted	1933
Statute	Minn. Stat. § 290.0122, Subd. 2, 5 and § 290.0132, Subd.19(b)
Tax Type	Individual Income Tax
Provision Type	Minnesota Personal Deduction
Latest Fiscal Impact Estimate	$85,700,000-Fiscal Year 2026
Latest Claims Estimate	118,452 – Tax Year 2023
Expiration Date	None

Key Findings

- Fewer taxpayers claimed the Minnesota MID after the Minnesota standard deduction was nearly doubled in 2019. This followed a similar increase to the federal standard deduction in 2017, a lowering of the deduction limit from $1 million to $750,000, and other federal tax provisions. The number of Minnesota taxpayers that itemized deductions dropped from 59% in tax year 2017 to 6% in tax years 2021-2023.
- Higher income deciles receive a relatively higher share of MID benefits. For example, in tax year 2023, the top three income deciles (deciles 8-10), approximately 7% of filers, received approximately 42% of MID benefits. The Minnesota Department of revenue calculates income deciles by ranking households from lowest to highest income and creating groups representing equal amounts of total income.
- Through existence and utilization, the LBO concludes that the Minnesota MID recognizes expenses incurred in generating personal income or wealth.
- Based on an analysis of available income tax data as well as federal and state studies of similar policies, the deduction likely does not encourage home ownership.
- Based on a review of the requirements to claim the MID, the LBO determines that the MID is not administratively burdensome both from the perspective of filers and the Minnesota Department of Revenue.

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Data Analysis

For tax year 2023, the average deduction across all income deciles was $15,810. For income deciles 1-6, the average 2023 deduction was between $12,680 (second decile) and $14,473 (sixth decile). For income deciles 7-10, the average 2023 deduction was between $16,204 (seventh decile) and $21,439 (tenth decile). Figure 1 shows the distribution of total income tax filers versus the distribution of MID benefits by income decile. In tax year 2021, deciles 1-3 represent 66% of total filers but only 20% of MID benefits. For the same year, deciles 7-10 represent only 10% of all filers but over 50% of MID benefits. Similar conclusions can be drawn for tax years 2022 and 2023.

Figure 1. Distribution of Tax Filers vs Distribution of Minnesota Home Mortgage Interest Deduction Benefits by Income Decile – Tax Years 2021-2023

	2021 Distribution		2022 Distribution		2023 Distribution	
Income Decile	**Total Filers**	**Total Benefits**	**Total Filers**	**Total Benefits**	**Total Filers**	**Total Benefits**
First	39%	6%	37%	7%	36%	5%
Second	16%	7%	16%	5%	16%	5%
Third	11%	7%	12%	9%	12%	8%
Fourth	9%	8%	9%	7%	9%	9%
Fifth	7%	8%	8%	8%	8%	8%
Sixth	6%	9%	7%	9%	7%	10%
Seventh	4%	11%	5%	10%	5%	12%
Eighth	3%	17%	4%	17%	4%	18%
Ninth	2%	19%	2%	19%	2%	19%
Tenth	1%	8%	1%	7%	1%	5%

Data Source: Data from Minnesota Department of Revenue Tax Research. Calculation of Distribution by the LBO
Note: For an expanded view of this table from tax years 2017-2023 see report Appendix C. For income decile ranges for tax years 2017-2023 see report Appendix A.

Potential Modifications Based on Federal MID Studies

Limiting the federal MID to either $20,000 or $10,000 is estimated to lead to a ten-year revenue increase of $170 and $521 billion respectively.[1] The federal MID applies to interest paid on second homes. Limiting MID to primary residences is estimated to lead to half a million fewer returns itemizing deductions, approximately 1% of federal itemizers. A similar analysis on the Minnesota MID to limit the MID to principal residence estimates a fiscal year 2026 revenue increase of $9.5 million.[2]

Contact Information and Disclaimer

This tax expenditure evaluation was prepared by the Legislative Budget Office for the Tax Expenditure Review Commission. For more information, please visit the Tax Expenditure Review Commission website. For the complete report visit the TERC report page. Contact the Legislative Budget Office at 651-297-7146 or lbo@lbo.mn.gov with questions.

[1] "The Mortgage Interest Deduction: Options for Reform," *The Budget Lab* June 6, 2025, https://budgetlab.yale.edu/research/mortgage-interest-deduction-options-reform
[2] Minnesota Department of Revenue, Analysis of H.F 1379 Individual Income Tax Limit Mortgage Interest Deduction.