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If a plan to slash the tax deduction for interest on mortgage loans became law, it would reach deep into the pockets of many South Florida homeowners.

"We look at the mortgage interest deduction as being the best benefit of home ownership," said Ann DeFries, president of the Realtor Association of Fort Lauderdale.

Today, homeowners can deduct interest on mortgages of up to $1 million.

But at a tax reform meeting Tuesday in Washington, D.C., panel members discussed limiting the break to loans in the $250,000 to $300,000 range, which is less than the median home sales price in much of South Florida.

"When you reduce that [deduction] cap, say from $1 million to $300,000, it becomes unfair to a high cost area such as ours," DeFries said.

Realtors vowed to fight the proposal if the panel adopts the recommendation.

"I think it would have a serious impact on the South Florida real estate market because we have a large number of vacation homes and second homes. That's one of the announced targets," said John Mike of Prudential Florida WCI Realty in West Palm Beach and vice chairman of the Realtors Association of the Palm Beaches.

Former Florida Sen. Connie Mack, who heads President Bush's Advisory Panel on Federal Tax Reform, said the group didn't select a specific dollar amount for its target, but he said in an interview Wednesday, "The notion is probably somewhere between $250,000 to $350,000."

Mack noted the change is a long way from becoming law. The panel is working on a system that would allow the amount to vary by county, to reflect local home prices, he said.

A prime reason for considering the change, Mack said, is that by offering a large mortgage interest deduction, the tax law today favors investments in real estate compared with other assets.

That in turn has helped to heat up the real estate market. "With the present code I think it is fair to say it also encourages people to build larger and more expensive homes," he said.

"The way we would structure this is to encourage home ownership," he said. However, "If a person is going to build a $1 million or $2 million or $3 million home, they are not going to get the same tax treatment as they got in the past."

Mack also cited fairness as an issue, saying that high-income taxpayers get most of the benefit from this deduction. A Treasury Department analysis of recent returns shows that 22 percent of the benefit of the mortgage interest deduction goes to 2.2 percent of all tax filers who have incomes of $200,000 or more.

But locally, home prices are so high that any cut in the mortgage interest deduction would hurt plenty of future buyers. The panel has not decided how or when the new limit could be implemented and what would happen to existing mortgage holders above the limit.

Only 39 percent or 501 of the single family homes sold in Palm Beach County in September out of a total of 1,282 were priced at less than $350,000, according to statistics from the Multiple Listing Service.

In Broward County, the under-$350,000 category accounted for 46 percent of all sales in September.

Nationally, the mortgage interest deduction is very widely used. For the average taxpayer, it is the largest itemized deduction that they take.

More than 37 million taxpayers claimed a mortgage interest deduction on their returns in 2002, according to CCH Inc., a tax information and software firm. This is the most recent year for which tax return statistics are available.

For a taxpayer in the $30,000 to $50,000 income range, CCH says the average mortgage interest deduction was $6,850. That's larger than the $4,994 average for medical expenses, $3,187 for taxes and $2,007 for contributions to charity in that income category.

The tax panel has been charged with finding reforms that are revenue neutral, meaning they won't reduce the amount of money collected by the Treasury in taxes.

That's been made more difficult by the panel's last major decision, which was to recommend getting rid of the Aternative Minimum Tax, or AMT, a part of the tax code designed to force wealthy taxpayers to pay at least some federal income tax. The AMT is widely despised on Capitol Hill by the National Taxpayer Advocate and consumer groups. It's expected to hit nearly 20 million taxpayers this year, up from 3.6 million last year.

"When we recommended in July the full repeal of the Alternative Minimum Tax every body cheered and jumped up and down. I don't think they every realized they have got to pay for it now," said Liz Ann Sonders, a panel member and the chief investment strategist for Charles Schwab. "You can't cut $1.2 trillion out of the government's revenue over the next ten years without finding offsets."

The mortgage interest deduction is only one of those offsets under discussion.

Another major tax reform proposal, in terms of revenue for the government, would be to tax health insurance as an employee benefit. Over a certain limit, possibly $11,000, Mack said the panel is looking at making the value of health insurance coverage to the employee taxable as ordinary income.

If your employer provided you with a policy valued at $15,000 a year, then you would have an extra $4,000 in income on which taxes would be assessed.

Sonders said some employees, in that scenario, might prefer a less expensive insurance policy and ask their employers to pay them the extra $4,000 as cash compensation.

The amount of employer-provided health insurance that was excluded from taxes this year is estimated by the Treasury at $125.7 billion. Mortgage interest deductions in 2002 were valued at $336.6 billion.

The tax reform panel meets again next Tuesday. Its report on suggested reforms is due Nov. 1.