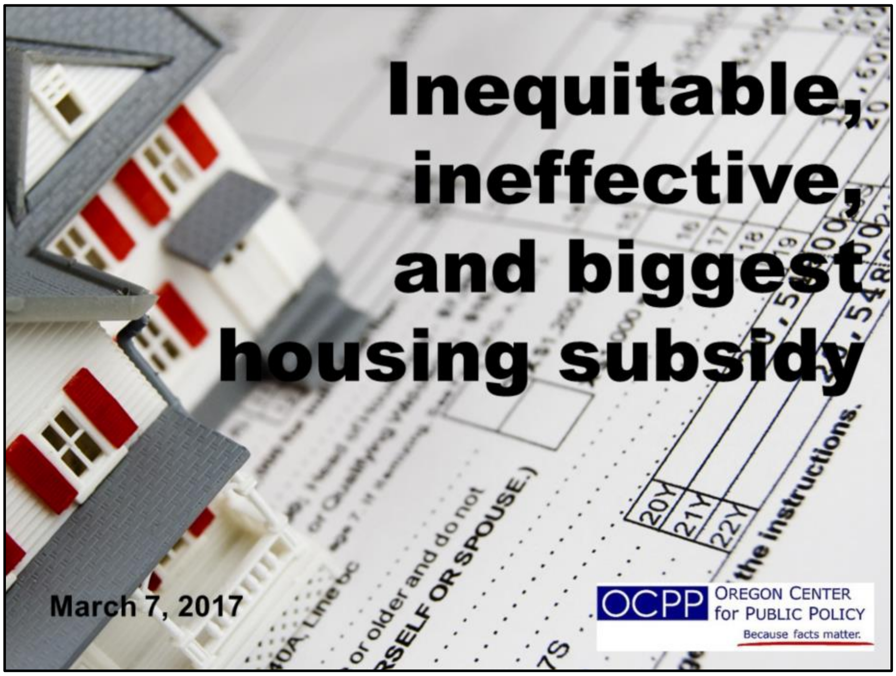


I'm guessing you're aware that Oregon is facing a serious housing crisis. Families are being evicted. The number of homeless school children is at a record level. Homeownership is out of reach for many. And this housing crisis is not limited to Portland and other cities in Oregon. Oregon rural counties are some of the least affordable among all rural counties nationally.

So, imagine if someone where to go to the Oregon legislature and say, "I have a great idea for addressing Oregon's housing affordability crisis. Why don't we take a billion dollars and spend it on subsidizing existing homeowners. Under my plan, the wealthiest homeowners will get the biggest taxpayer subsidy."

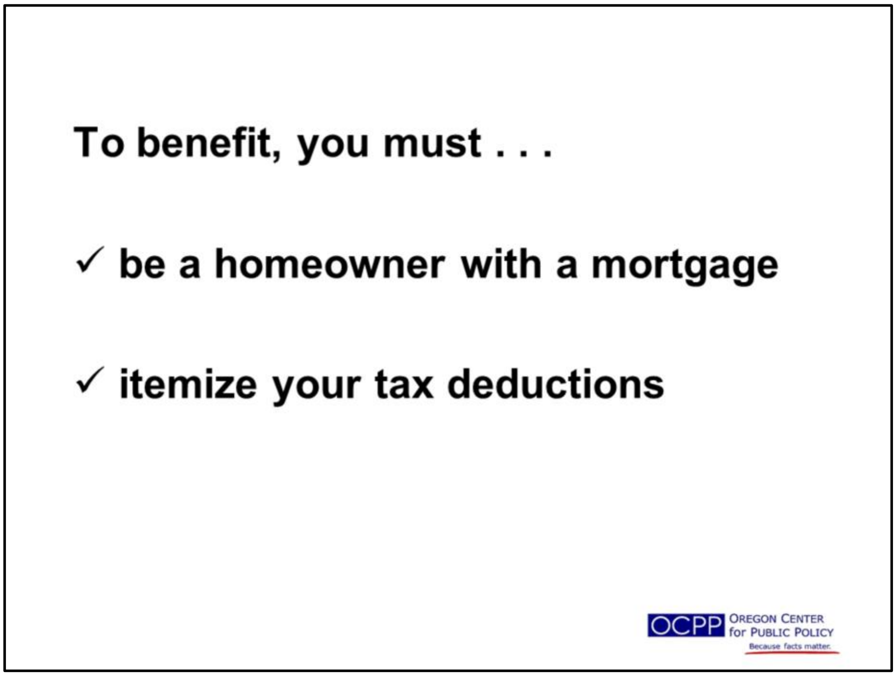
That sounds crazy, of course.

But here is the thing: that is precisely the policy that we currently have on the books. That policy is called the mortgage interest deduction.

It’s a subsidy

It’s important to recognize that the mortgage interest deduction is a housing subsidy.

It lowers the cost of owning a home for those who can take advantage of it. The deduction allows those who claim it to reduce their taxable income by the amount of interest paid on their mortgage. Here is an example: if you paid $10,000 in yearly interest, and you are in the 9% Oregon tax bracket, then you get a benefit of $900 from the mortgage interest deduction ($10,000 x 9%).



So who benefits from the mortgage interest deduction?

• To qualify, you have to be a homeowner with a mortgage. If you are a renter, you don't even get in the door.

• Also, to take advantage of it, you have to itemize your deductions. If you claim the standard deduction, you're out of luck. You don't benefit from the deduction.

If you can take advantage of the mortgage interest deduction, then . . .

If so, you can deduct interest paid on mortgage debt worth up to $1 million, including debt on a second home

OCPP OREGON CENTER for PUBLIC POLICY
Because facts matter.

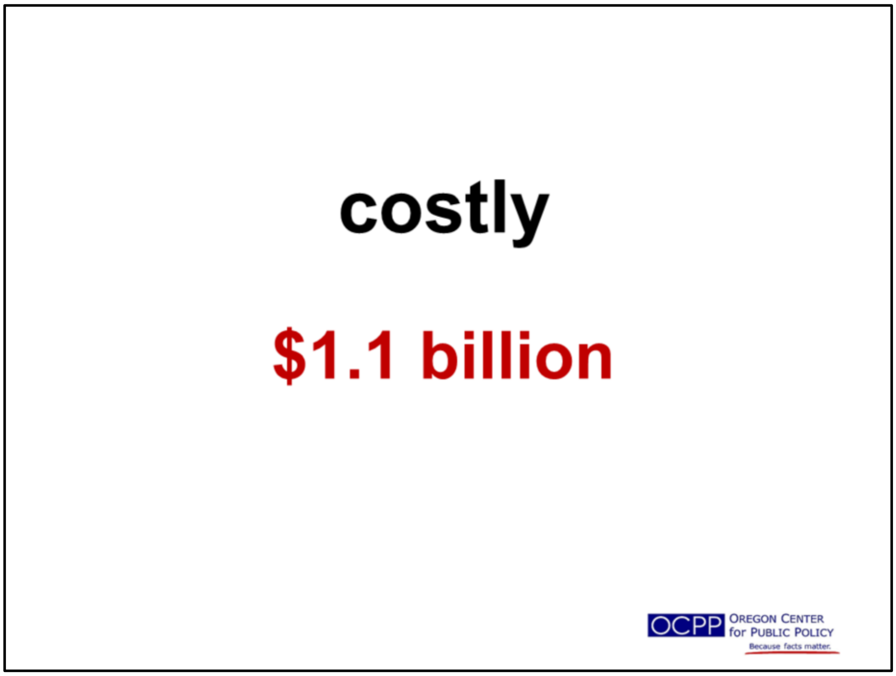
You can deduct interest payments on a mortgage worth up to a million dollars, including debt on a second home. In other words, taxpayers will subsidize your purchase of a vacation home.

Here are three key points to understand about the mortgage interest deduction.

costly

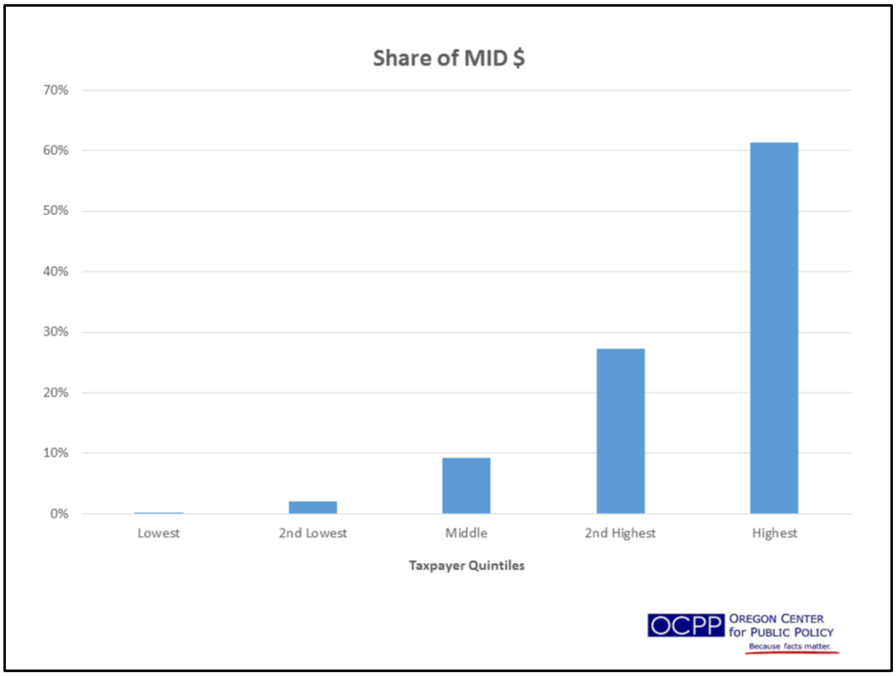
OCPP Oregon Center for Public Policy
Because facts matter.

The first point is that the mortgage interest deduction is very costly. The most recent estimate is that it is costing . . .



. . . over a billion dollars in a budget period. That makes it far away the biggest housing subsidy. Nothing comes close.

The second point is that the mortgage interest deduction is inequitable



Most of the benefits of the deduction goes to those at the top the income scale.

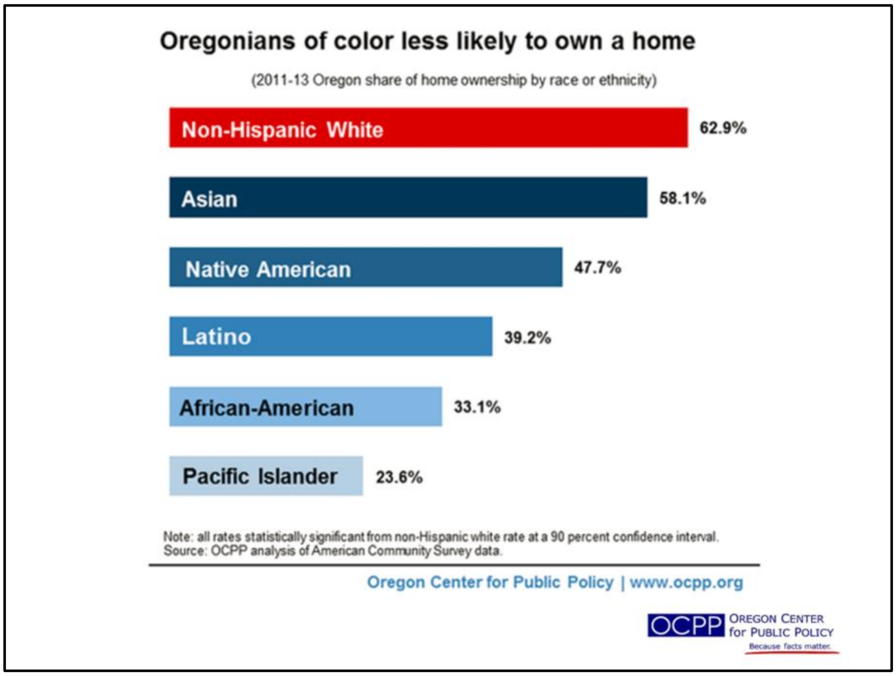
There are structural reasons why this is the case:

• You have to be a homeowner to benefit, and homeowners tend to have higher incomes than renters

• You have to itemize your deductions to claim it, and higher income folks are more likely to itemize deductions. In fact, only 1/3 of taxpayers claims the mortgage interest deduction.

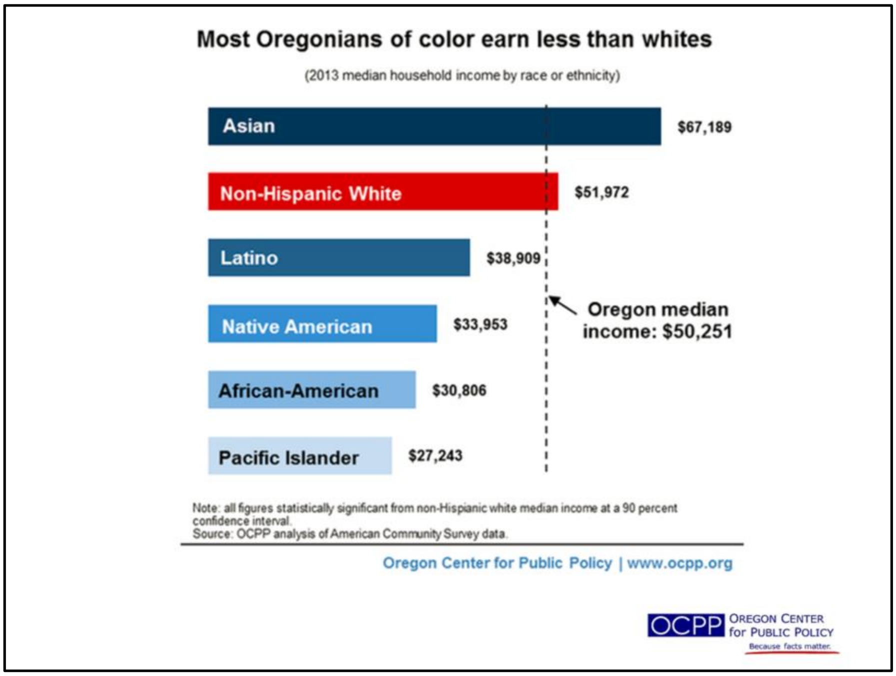
• Higher income folks are likely to own a more expensive home, and thus have a bigger mortgage.

• But even if a low-income person and a high income person pay the same amount of mortgage interest, the deduction still gives a bigger benefit to the higher income person, because they are in a higher tax bracket.



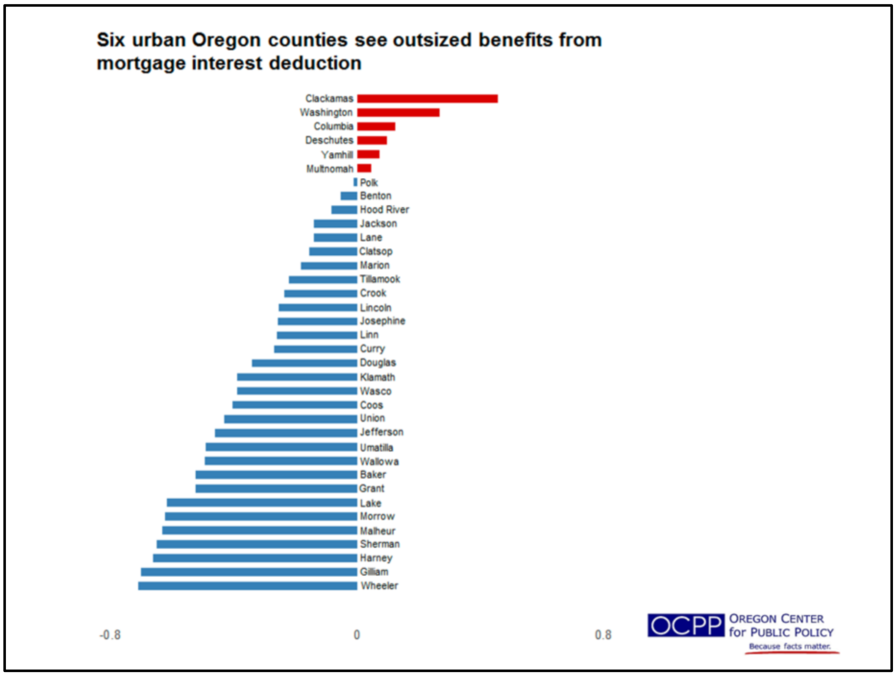
It is also inequitable in a couple of other ways.

First, people of color are much less likely to own a home.



Second, they have significantly lower incomes.

So while we don't have tax data broken down by race and ethnicity, it's safe to say that Oregonians of color are far less likely to benefit from the mortgage interest deduction.



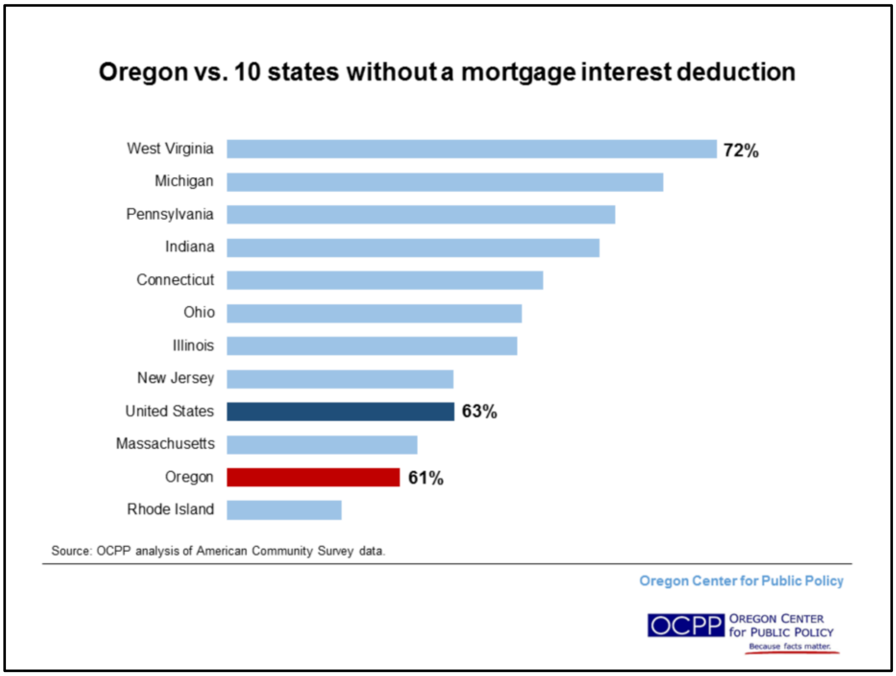
The deduction is also inequitable to rural Oregon. Nearly 9 out of 10 mortgage interest deduction dollars flow to urban areas.

And its not just due to the fact that cities have a bigger population. Six urban counties in Oregon get a disproportionate share of mortgage interest deduction dollars (relative to their share of total taxpayers), while all other counties get a disproportionately smaller share. For example, Clackamas County has about 10% of the state's tax papers, but receives about 15% of mortgage interest deduction dollars.

It's clear rural Oregon gets the short end of the stick. There is already significant economic inequality between urban and rural Oregon, and the mortgage interest deduction only adds to it.

The third point is that the mortgage interest deduction is ineffective, as just about every economist will tell you. The deduction is often justified on the claim that it promotes home ownership, but that makes no sense, because it mostly helps those who don't need help affording a home.

And in fact the data bears this out.



Among the 10 states with an income tax that did not offer a mortgage interest deduction, eight had homeownership rates higher than the national rate in 2013. Oregon, despite its expensive subsidy program, ranked below the national average and below all but one of those 10 states.

Another way to slice the data: Among all states, Oregon offers one of the highest effective mortgage subsidy rate of any state. But home ownership rates in Oregon in 2016 were below the national average.

In sum, the deduction is costly, inequitable and ineffective.

So the question then is, “How to improve the mortgage interest deduction in a way that it helps address Oregon’s housing crisis?

A statewide coalition led by the Oregon Center for Public Policy and the Oregon Opportunity Network has been wrestling with that question for some time now. And have put forward a solution. That proposed solution is HB 2006.

HB 2006

✓ Limit the amount of interest that can be deducted ($15,000)

✓ Means test deduction, so very high income people cannot claim it

✓ Eliminate the second home deduction

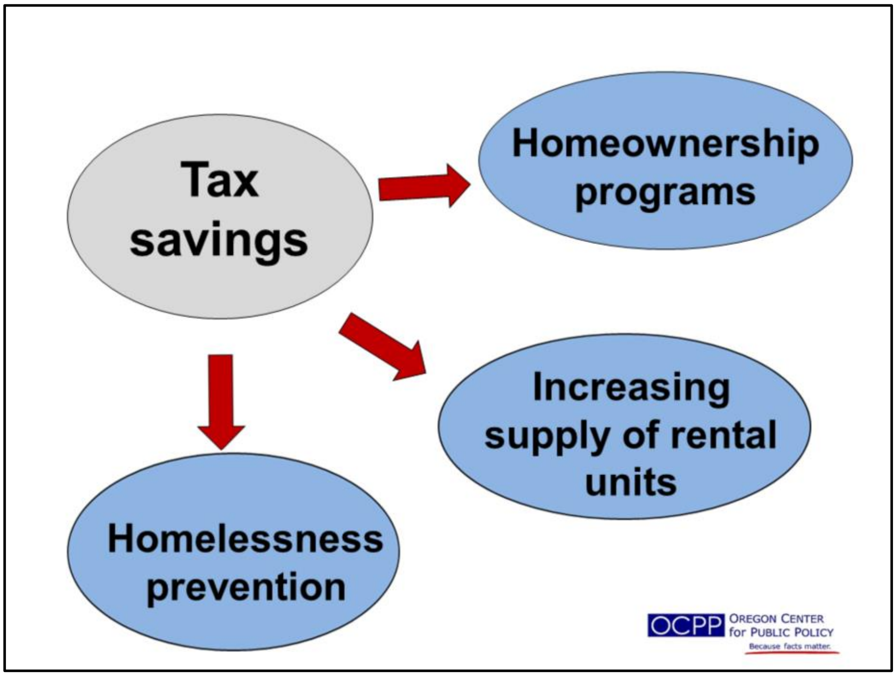
OCPP OREGON CENTER for PUBLIC POLICY
Because facts matter.

HB 2006 would reform the deduction in the following way:

• Limit how much interest you can deduct, that limit being $15,000 per year.
• Eliminate the deduction for high-income folks, for couples the limit is $200,000 a year in adjusted gross income.
• Get rid of the second home deduction.

These changes would not affect the vast majority of Oregonians currently getting the deduction.

Meanwhile, it would free up very significant revenue to invest in affordable housing. We don’t have exact figures on this yet, but it’s reasonable to think that it could be in be a couple of hundreds of millions a year.



Under HB 2006, the freed up revenue would go to three things:
1) investments to truly increase homeownership (50%)
2) increasing the supply of affordable rental units (25%)
3) homelessness prevention (25%).

Want to help?

www.ocpp.org/mid-remedy

OCPP OREGON CENTER for PUBLIC POLICY
Because facts matter.

A reform of the mortgage interest deduction is long overdue. The severe statewide housing affordability crisis adds urgency to the need to reform Oregon's biggest housing subsidy in a way that it transforms it into a vehicle for confronting the crisis.

If you want to get connected with our efforts, please visit www.ocpp.org/mid-remedy.