

**Statement of Daniel Hauser, Policy Analyst
in Support of HB 3298
House Committee on Revenue
March 27, 2017**

Chair Barnhart, Vice-Chair Smith Warner, Vice-Chair Bentz, and members of the Committee,

My name is Daniel Hauser, and I am a policy analyst with the Oregon Center for Public Policy. The Center's mission is to use research and analysis to advance policies that improve the economic and social opportunities of all Oregonians. I am testifying today in support of House Bill 3298, with some key amendments.

We applaud this Committee for having the courage to seriously assess if Oregon's \$1.1 billion housing subsidy, known as the mortgage interest deduction, is truly the best way to address our state's crises in housing and homelessness.

And Oregon is facing a housing crisis. Families are being evicted from their homes and there are more homeless school children in Oregon than during the depths of the last recession. Further, Oregon's rural counties are some of the least affordable rural counties in the nation. The mortgage interest deduction is doing nothing to help these Oregonians in need.

The mortgage interest deduction is an upside-down housing subsidy, mainly helping those who don't need help. Only Oregonians who own a home, have a mortgage, and itemize their deductions are eligible to use it. This results in only three-in-ten Oregonians claiming the deduction, and almost two-thirds of these benefits going to the wealthiest one-fifth of Oregonians.

By shifting from a tax deduction to a refundable credit, this bill would extend the subsidy to lower-income homeowners who currently do not itemize their tax deductions. That would be an improvement over the current system that mainly rewards the more well-off homeowners.

The bill would also make this housing subsidy more transparent, and that is a very good thing. Right now, many homeowners probably have no idea of the value of the housing subsidy they get from the mortgage interest deduction. Other homeowners may think they get a subsidy, but in fact don't because they take the standard deduction. By turning the deduction into a refundable tax credit, Oregonians will know the exact value of their housing subsidy.

HB 3298 has two positive components we want to highlight. First, it is means-tested to ensure wealthy Oregonians are not receiving an unnecessary subsidy. Second, it does not subsidize Oregonians second homes — a travesty, when so many do not have a place to safely rest.

We have two recommendations for improving the bill:

First, HB 3298 should not have a flat credit cap, as is indicated in section 2 of the bill. Instead, the credit amount should be a percentage of the mortgage interest paid in the prior year, with a reasonable limit on the total amount of the credit. By tying the credit to the interest amount paid, the subsidy would better reflect the cost of owning a home.

Second, this bill should generate tax savings to reinvest in addressing the state's severe housing crisis, rather than be revenue-neutral. HB 2006, a bill before the House Committee on Housing and Human Services, would reform the mortgage interest deduction in a way that generates almost \$300 million in tax savings and reinvests it in increasing homeownership, increasing the supply of affordable rental units, and preventing and addressing homelessness. We would urge this committee to amend this bill so it also raises \$300 million and directs the revenue in the same way as HB 2006.

Let me give you an example of what that would accomplish. HB 2006 would reinvest 25 percent of the tax savings — equal to almost \$75 million — into the Emergency Housing Account. This would allow our state to stabilize almost 22,000 families in need of emergency shelter and transitional housing. Contrast that sum with the over 21,000 children in Oregon's schools currently experiencing homelessness, and it becomes clear this investment would be a real game changer for Oregonians struggling to find stable housing.

Thank you for considering this important piece of legislation, and we encourage your support of HB 3298 with the suggested amendments.