

Oregon's biggest housing subsidy needs to get children off the streets, not subsidize Oregon's rich

Commentary



April 12, 2019 By [Juan Carlos Ordóñez](#)

One night a year, authorities and volunteers nationwide count the homeless. The most recent count revealed [less than half](#) of Oregon's homeless families with children found shelter that night. The majority slept in the street, a car, a vacant lot. No state fared worse than Oregon in this respect.

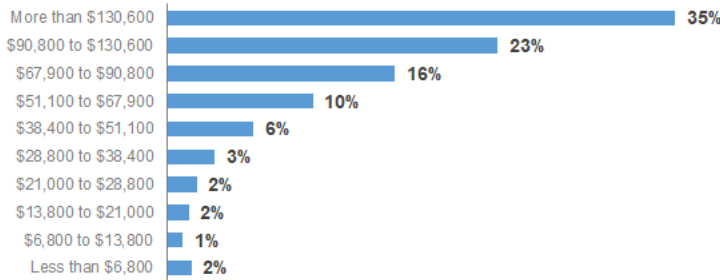
The plight of the homeless is only one — though the most brutal — manifestation of Oregon's statewide housing crisis. Many Oregonians suffer from high rents that stress their finances and health, while others see their dreams of homeownership move well out of reach.

But as the housing crisis wreaks havoc on the lives of many Oregonians, the state's biggest housing subsidy does next to nothing to alleviate the problem. The Oregon legislature needs to fix this. It has the opportunity to do so right now by enacting [House Bill 3349](#).

The biggest of all state housing subsidies is the Oregon mortgage interest deduction. Oregon will spend close to a billion dollars in the next budget period subsidizing homeownership for less than a third of Oregon taxpayers. The bulk of the tax benefits will flow to the best-off Oregonians, those who do not need help from the state in affording a home. The chart below groups Oregonians into deciles according to income, with percentages indicating the share of all mortgage interest deduction dollars going to each group. The greater the income, the greater the benefits — by a lot.

Mortgage interest deduction benefits flow to higher-income

Share of total MID deduction going to each income decile in the 2015 tax year



Source: Oregon Department of Revenue data.

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There are several reasons why the mortgage interest deduction favors the highest earning Oregonians. First, it only helps homeowners, who tend to earn more than renters. Second, it only helps those who use itemized deductions, and they again tend to be higher-income earners. Third, because it is a deduction from taxable income (not a credit against taxes), it is more valuable to those with more income in higher tax brackets. A \$1,000 tax deduction in the lowest tax bracket is only worth \$50, while the same \$1,000 deduction is worth \$99 for a taxpayer in the top tax bracket. Dollar-for-dollar of interest, the deduction is worth more to high-income households. And fourth, the well-off are more likely to own more expensive homes with bigger mortgages, meaning they have more interest to deduct.

So poorly structured is the mortgage interest deduction that it even subsidizes owners of vacation homes, given that it allows the deduction of interest on a second home. Bear in mind, we're not talking about a rental property because the interest on a mortgage on a rental property gets deducted as a business expense. We're talking about vacation homes that may sit empty most of the time.

Because the mortgage interest deduction delivers the bulk of the benefits to those who can afford a home, it does nothing to promote homeownership. That's why [economists of all political stripes](#) pretty much agree that the mortgage interest deduction makes no sense.

This legislative session, Oregon lawmakers can bring a big dose of urgently needed common sense to this policy. HB 3349 scales back the deduction starting at \$200,000 in adjusted gross income, and completely ends the subsidy at \$250,000. This removes the tax subsidy for the richest 5 percent of Oregonians. For 95 percent of taxpayers, the deduction remains the same. It also takes away the deduction for mortgage interest on vacation homes.

These two targeted changes free up \$150 million dollars in a single budget period, which the bill invests in affordable homeownership and homeless services with an emphasis on families with children. In other words, without having to raise any new revenue, the bill gives Oregon resources to confront the housing crisis in a big way. HB 3349 would route funds from vacation homes to help people get off the streets. It ought to be a no-brainer.

Last month, HB 3349 received a thumbs up from the House Human Services and Housing Committee, and has moved to the House Revenue Committee. It's now the turn of this committee to do right by Oregon's homeless families with children.

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