Joint Task Force Addressing Racial Disparities in Home Ownership

Supply Incentive Tax Credit Proposal
August 18, 2022

Proposal
To address investor ownership of existing homes and increase the return of existing homes to the homeownership market, the Joint Task Force on Addressing Racial Disparities in Home Ownership could recommend the development of a tax credit to encourage owners, including both personal and corporate taxpayers, of single-family homes to sell the home to one of the following buyers:
1. current renter;
2. nonprofit housing or homeownership organization; or
3. purchaser under 100% AMI of the state or county.

The tax credit could be structured in two ways:
1. exempt the capital gains earned on property; or
2. set a tax credit amount of a certain percentage of the sales prices, with a maximum amount.

Other considerations:
- Tax credit amount would need to be set at an amount that would incentivize the sale, perhaps equal to the equity gained in one year.
- Eligible sellers and buyers and all terms (e.g., “current renter” or “single-family home”) will need to be defined in statute or administrative rule, so it is clear who qualifies.
- A third-party entity will be needed to certify eligibility, including current renter status or income. One option would be to have Oregon Housing and Community Services (OHCS) create a form to be completed and certified by the title companies at closing for eligible transactions.
- Tax credits can be refundable where the state would pay the difference if tax liability is less than the credit; transferable to another taxpayer; or may be a carryforward credit to future tax years, with three to five years being the typical period for use of the credit.
- The work group discussed pairing the tax credit with a five-year residency requirement for the buyer; however, the enforcement mechanism for such a condition is not clear. If the tax credit were only available for sales to nonprofit housing or homeownership organizations, those organizations could require conditions on the subsequent buyer, including payback provisions or other restrictions on “flipping.”
- Reporting on use of the tax credit could be required by OHCS with the assistance of the Department of Revenue.
- Tax credit must have sunset dates; most expire every six years. If the tax credit begins with the 2024 tax year, there might not be enough data to evaluate it until 2029 (six years).

Background

"Investors bought 24 percent of all single-family houses sold nationwide last year, up from 15 percent to 16 percent annually going back to 2012, according to a Stateline analysis of data provided by CoreLogic, a California-based data analytics firm. That share dipped only slightly in the first five months of 2022 to 22 percent."[1]

For Oregon, the investor share of home sales in 2021 was 20 percent with 16,781 total home sales. This represents a 67 percent change from 2020.[2]

Many affordable homeownership developers and brokers who work with BIPOC homebuyers have expressed concern about their ability to compete with investor buyers. Similarly, because of the number of past purchases, there is interest in finding a way to encourage the return of properties purchased by investors to the homeownership market.

Problem Statement

Two problems or concerns:

- investor purchases and competition with first-time or BIPOC homebuyers; and
- investor ownership of existing homes and returning some of those to the homeownership market to be available for purchase by BIPOC homebuyers.

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[1] Governing, Investors Bought a Quarter of Homes Sold Last Year, Driving Up Rents (July 26, 2022)

[2] *Id*