

SB 852 STAFF MEASURE SUMMARY

Senate Committee On Finance and Revenue

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Meeting Dates: 5/3

WHAT THE MEASURE DOES:

Prohibits, for purposes of personal income taxation, mortgage interest deduction for residence other than taxpayer's principal residence, unless taxpayer sells residence or actively markets residence for sale. For taxpayers with adjusted gross income in excess of \$250,000, disallows mortgage interest deduction for interest paid or accrued on indebtedness of taxpayer's principal residence. Phases out mortgage interest deduction for taxpayers with adjusted gross income in excess of \$200,000 but not in excess of \$250,000. Requires Department of Revenue to estimate increase in personal income tax revenue resulting from limitations placed on mortgage interest deduction and transfer such amount to Oregon Housing Fund. Continuously appropriates amounts from Oregon Housing Fund to Oregon Housing and Community Services to support affordable homeownership and prevent homelessness. Applies to tax years beginning on or after January 1, 2022.

ISSUES DISCUSSED:

EFFECT OF AMENDMENT:

No amendment.

BACKGROUND:

Senate Bill 852 prohibits the personal mortgage interest deduction (MID) for residences other than the taxpayer's principal residence, with certain exceptions. Additionally, the measure limits the MID for principal residences based on federal adjusted gross income (AGI). For taxpayers with AGI between \$200,000 and \$250,000, the allowable deduction is linearly phased out. For taxpayers with AGI greater than \$250,000, the MID is eliminated. Changes to MID apply to tax years beginning on or after January 1, 2022.

Measure also requires Department of Revenue to estimate the amount of personal income tax revenue gained from limitations on the MID and transfer the estimated amount into the Oregon Housing Fund to be credited to the Oregon Housing Opportunity Account. The Housing and Community Services Department (HCSD) is directed to administer the account and fund programs that promote affordable home ownership and prevent homelessness.

Mortgage interest paid by owner-occupants on their primary and secondary residences is deductible from personal income for taxpayers who itemize deductions. According to the Oregon's 2021-23 Tax Expenditure Report, the purpose of the MID is to promote home ownership by lowering the cost of mortgages. Since 2010, the MID has on average been reported on 600,000 tax returns per year, causing an estimated reduction in personal income tax revenue of \$375-\$500 million per year. In 2019, about 30% of all tax returns claimed the MID with about 12% (72,000) of such returns filed by taxpayers with AGI above \$200,000.