

Background

Senate Bill 852 disallows some portions of the mortgage interest deduction, and then requires the Department of Revenue (DOR) to estimate the revenue gain from that change to the personal income tax program. It also requires that DOR transfer the estimated revenue impact from the personal income tax program to an account administered by Oregon Housing and Community Services to be spent on housing issues.

Problem

As introduced, SB 852 requires that DOR estimate the revenue increase attributable to the policy change to the mortgage interest deduction in this bill. It does not specify how that estimate should be accomplished. The intent may be for DOR to calculate, on a taxpayer-by-taxpayer basis, the exact tax difference between the current deduction and what would be allowed by under this policy change. However, it is not possible for DOR to perform such a specific calculation of the revenue impact. One complicating factor is that the federal Tax Cuts and Jobs Act (2017) substantially increased the federal standard deduction to the point where many taxpayers itemize deductions for Oregon only. This makes calculating the difference in the mortgage interest deduction, taxpayer-by-taxpayer, much less accurate.

To implement the law as introduced, DOR would instead have to rely on a broad statewide estimate of the impact of the policy, estimate the overall revenue difference between the old and new mortgage interest deduction, and then make the revenue transfer based on that broad estimate. For this estimate DOR would rely on available personal income tax data, federal tax data, and outside macro data, such as the US Census data and similar reliable sources of information.

Stakeholder Awareness

The Department of Revenue can implement the law as introduced, however the revenue estimate required in the bill may not be as refined as stakeholders intend for it to be. The agency will incur a fiscal impact based on availability of data resources and time needed to determine a revenue estimate. The data and calculation may yield an estimate not reflective of reality.

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