March 9, 2017

Testimony in Support of HB 2006

Chair Keny-Guyer, Vice Chair Olson, Vice ChairSanchez, and members of the Committee:

My name is Juan Carlos Ordóñez, communications director for the Oregon Center for Public Policy, and I respectfully submit this testimony in support of House Bill 2006.

Oregon faces a severe housing crisis. Families are being evicted from their homes. The number of homeless school children is at a record level. Homeownership is out of reach for many families. This crisis is not limited to urban areas. Oregon rural counties are some of the least affordable among all rural counties nationally. Meanwhile, Oregon's biggest housing subsidy — the mortgage interest deduction — is doing nothing to alleviate the problem.

The mortgage interest deduction is a housing subsidy. It lowers the cost of owning a home for those who can take advantage of it. The deduction allows those who claim it to reduce their taxable income by the amount of interest paid on their mortgage.

To qualify for the deduction, you have to be a homeowner with a mortgage. If you are a renter, you don't even get in the door. Also, to take advantage of it, you have to itemize your deductions. If you claim the standard deduction, you're out of luck. You don't benefit from the deduction.

If you can take advantage of the mortgage interest deduction, then you can deduct interest payments on a mortgage worth up to a million dollars, including debt on a second home. Thus, taxpayers will subsidize your purchase of a vacation home.

There are three key points to understand about the mortgage interest deduction.

The first point is that the mortgage interest deduction is very costly. The most recent estimate is that it will cost the state about $1.1 billion dollars in foregone revenue in the upcoming budget period. That makes it far-and-away the biggest housing subsidy in the state. Nothing comes close.

The second point is that the mortgage interest deduction is inequitable. It puts at a disadvantage low- and moderate-income Oregonians, Oregonians of color, and rural Oregonians.

The deduction mainly benefits homeowners higher up the income ladder. About 61 percent of mortgage interest deduction dollars go to the wealthiest fifth of taxpayers. There are structural reasons why this is the case:

- You have to be a homeowner to benefit, and homeowners tend to have higher incomes than renters.

- You have to itemize your deductions to claim it, and higher income taxpayers are more likely to itemize deductions. In fact, only one-third of all taxpayers claim the mortgage interest deduction.

- Higher income folks are more likely to own a more expensive home, and thus have a bigger mortgage.

- But even if a low-income person and a high-income person pay the same amount of mortgage interest, the deduction still gives a bigger benefit to the higher income person, because they are in a higher tax bracket.

The mortgage interest deduction also exacerbates racial and ethnic inequities. For one, people of color are much less likely to own a home, so they are less likely to potentially benefit from the deduction. Second, they have significantly lower incomes. So even if they own a home, they are less likely to claim the deduction. It's safe to say, then, that Oregonians of color are far less likely to benefit from the mortgage interest deduction.

The deduction is also inequitable to rural Oregonians. Nearly nine out of 10 mortgage interest deduction dollars flow to urban areas. That is not just due to the fact that cities have a bigger population. Six urban counties in Oregon get a disproportionate share of mortgage interest deduction dollars, relative to their share of all taxpayers in the state, while all other counties — including all rural counties — get a disproportionately smaller share. There is already significant economic inequality between urban and rural Oregon, and the mortgage interest deduction only adds to it.

The third point is that the mortgage interest deduction is ineffective. The deduction is often justified on the claim that it promotes home ownership, but that makes no sense, given that the deduction mostly helps those who do not need help affording a home.

The data bears this out. Among the 10 states with an income tax that did not offer a mortgage interest deduction, eight had homeownership rates higher than the national rate in 2015. Oregon, despite its expensive subsidy program, ranked below the national average and below all but one of those 10 states in the share of residents owning a home.

In sum, the deduction is costly, inequitable, and ineffective.

A reform of the mortgage interest is long overdue. In the face of the housing crisis afflicting our state, it is urgent that the legislature transform the state's biggest housing subsidy into a vehicle for addressing the crisis. Reforming the deduction in an equitable way, as HB 2006 proposes, would allow our state to make significant investments in promoting homeownership, increasing the supply of rental units, and preventing homelessness.