HB 3349 A STAFF MEASURE SUMMARY

House Committee On Revenue

Prepared By: Kyle Easton, Economist
Meeting Dates: 4/15

WHAT THE MEASURE DOES:
Disallows, for purposes of Oregon personal income taxation, mortgage interest deduction for residence other than taxpayer's principal residence unless residence was taxpayer's principal residence during tax year or during period three months prior to start of tax year and taxpayer sold or is marketing a qualified residence. 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. Linearly phases out mortgage interest deduction for taxpayers with adjusted gross income in excess of $200,000 but not in excess of $250,000. Applies to tax years beginning on or after January 1, 2019.

Establishes Oregon Housing Opportunity Account and requires Housing and Community Services Department to administer account. On or before December 31st of each year and beginning with December 31, 2020, requires Department of Revenue to transfer to Oregon Housing Opportunity Account, amounts equal to the estimated increase in tax revenue attributable to restrictions on deduction of mortgage interest. Requires funds in Oregon Housing Opportunity Account to be distributed to programs that promote affordable home ownership and programs that prevent homelessness.

ISSUES DISCUSSED:

EFFECT OF AMENDMENT:
No amendment.

BACKGROUND:
The mortgage interest deduction is an itemized deduction that exists in federal income tax statute and is applicable for Oregon tax purposes due to Oregon's connection to the definition of federal taxable income. The deduction allows taxpayers to reduce their taxable income by deducting the amount of mortgage interest paid during the tax year that is considered acquisition indebtedness with respect to any qualified residence of the taxpayer. Deductible mortgage interest includes qualified mortgage interest of a taxpayer's main home and a second home. Following recent tax law changes enacted at the federal level by the Tax Cuts and Jobs Act (2017), limitations on deductible interest vary depending on when the mortgage debt was originally incurred. For debt incurred after December 15, 2017, total interest allowed to be deducted is limited to $750,000 and home equity indebtedness is only allowed if the indebtedness was used to construct or significantly improve the taxpayer's residence. In tax year 2015, about 578,000 Oregon tax returns used the deduction and in total reduced their tax liability by about $386 million.

Businesses expenses are allowed as a deduction if the expense is an ordinary and necessary expense paid to maintain business operations. Deductible business interest expenses can include mortgage interest paid. Limits placed on mortgage interest deduction by measure are not applicable to mortgage interest that is deducted as a business expense.