

SECRETARY OF STATE

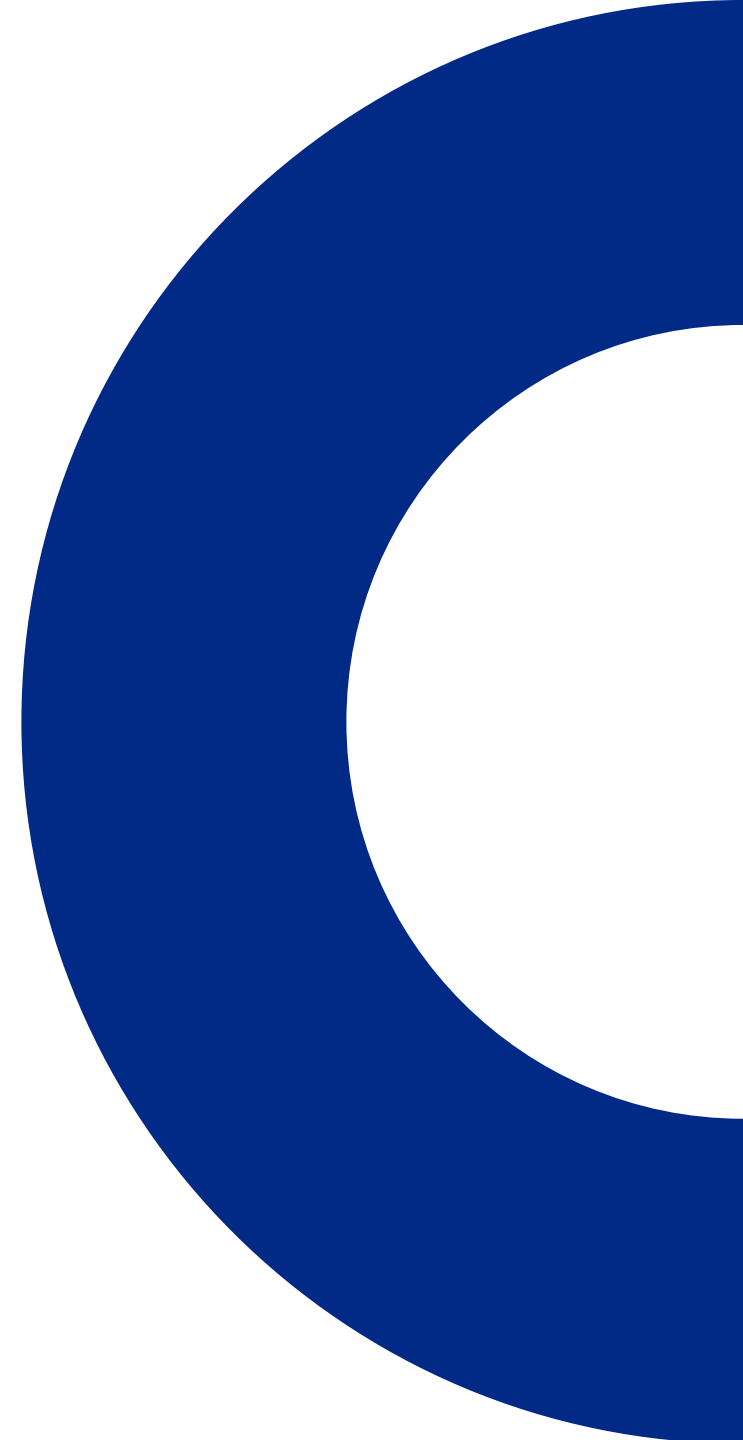
Senate Committee on Housing and Development March 13, 2023



Department of Revenue: Without Legislative Action the Mortgage Interest Deduction will Remain Regressive and Inequitable

Why we did this audit

1. This topic was a priority for Secretary Fagan and was added to the 2021 Audit Plan based on our annual risk assessment process.
2. The Mortgage Interest Deduction has an estimated revenue impact of more than \$1 billion for the 2021-23 biennium. It is the largest housing related tax expenditure and the eighth largest overall.

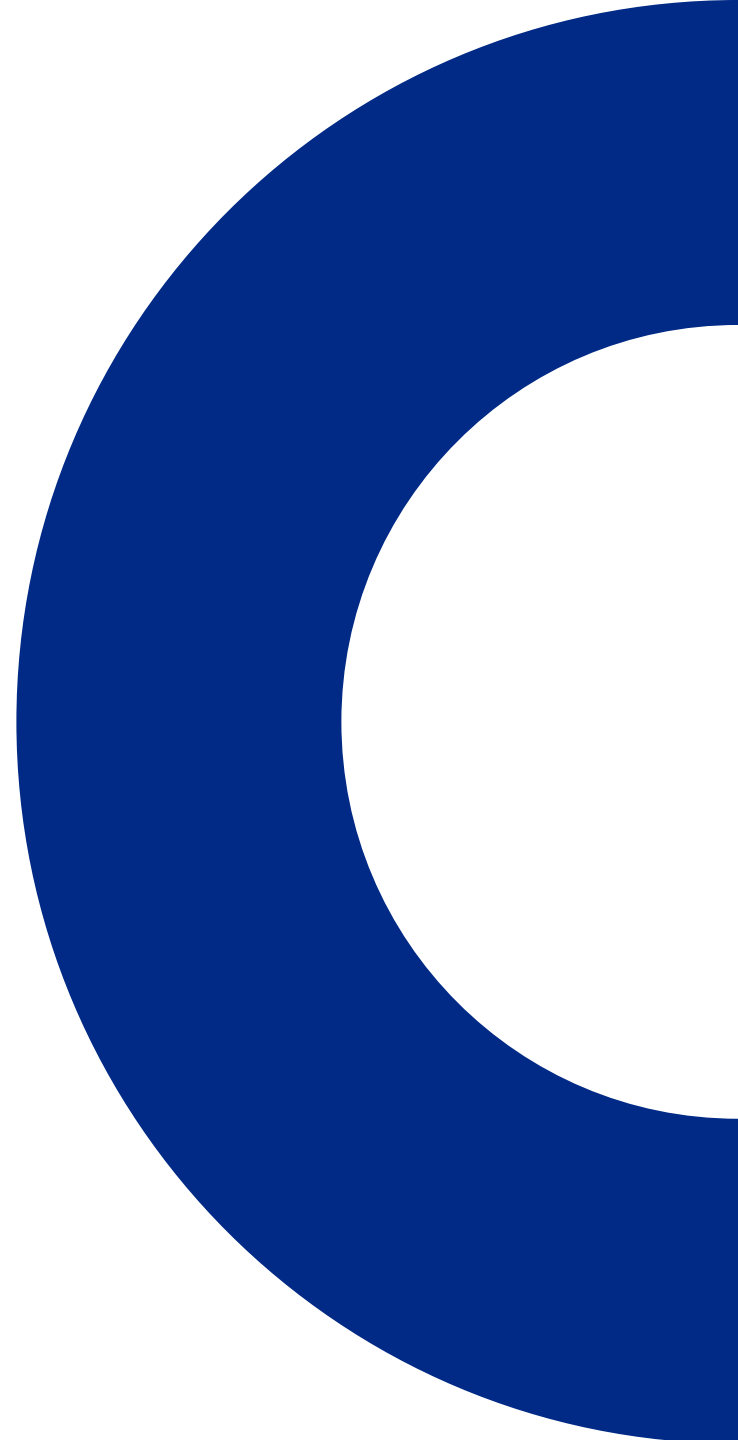


The Mortgage Interest Deduction is a large Tax Expenditure

- A tax expenditure is any law of the federal government or this state that exempts, in whole or in part, certain persons, income, goods, services or property from the impact of established taxes (ORS 291.201).
- The Mortgage Interest Deduction is one of nearly 400 tax expenditures in Oregon.
- It allows taxpayers to deduct their mortgage interest expenses from their taxable income, but only if they have itemized deductions greater than the standard deduction.

AUDIT OBJECTIVES

1. Determine the distribution and equity of the MID in Oregon by income, race/ethnicity, and geography.
2. Determine the current level of review the MID receives and who should be accountable for assessing its effectiveness.



AUDIT RESULTS

Distribution by Income:

- MID benefits are not equitably distributed among Oregon taxpayers.

Figure 5: Higher income taxpayers receive the majority of MID benefits

Income Percentile	AGI Range	Total MID Benefit	Percent of Total MID Benefit
Lowest 20%	Below \$16,100	\$1,553,800	<1%
Second 20%	\$16,100-\$32,900	\$12,815,400	3%
Middle 20%	\$32,900-\$57,100	\$43,831,900	11%
Fourth 20%	\$57,100-\$100,100	\$113,120,000	27%
Next 15%	\$100,100-\$202,600	\$157,003,600	38%
Next 4%	\$202,600-\$458,700	\$64,804,100	16%
Top 1%	More than \$458,700	\$20,698,900	5%
Total Resident		\$413,827,700	100%

Source: OAD analysis of 2018 DOR full-time resident personal income tax data.

AUDIT RESULTS

Distribution by Income:

- Average MID benefits increase substantially with income.

Figure 7: Average MID benefits increase dramatically with income

Income Percentile	AGI Range	Average MID benefit	Average MID reduction for those who benefit
Lowest 20%	Below \$16,100	\$4	\$222
Second 20%	\$16,100-\$32,900	\$35	\$396
Middle 20%	\$32,900-\$57,100	\$120	\$540
Fourth 20%	\$57,100-\$100,100	\$311	\$658
Next 15%	\$100,100-\$202,600	\$575	\$844
Next 4%	\$202,600-\$458,700	\$891	\$1,203
Top 1%	More than \$458,700	\$1,138	\$1,688
Total Resident		\$227	\$760

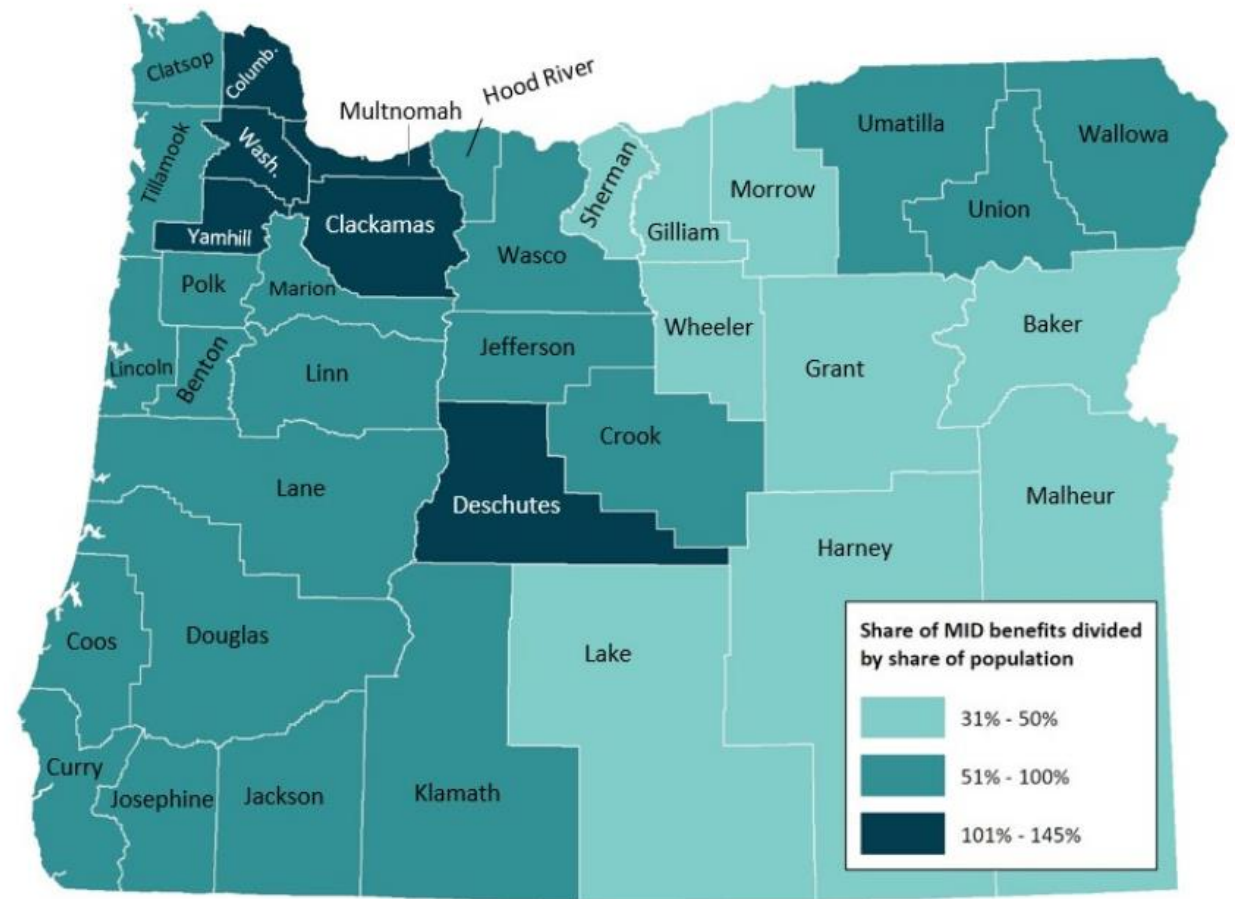
Source: OAD analysis of 2018 DOR resident tax return data.

AUDIT RESULTS

Distribution by County:

- MID benefits disproportionately accrue to Oregonians living in a handful of urban counties.
- MID benefits vary widely between counties.

Figure 10: A handful of urban counties disproportionately benefit from the MID by taxpayer population



Source: OAD analysis of 2018 DOR full-time resident tax return data, county map layer from the Oregon Geospatial Library.

AUDIT RESULTS

Distribution by Race and Ethnicity:

- White people in Oregon are far more likely to own their own homes than people of color.

Figure 11: White people are much more likely to own homes than people of color in Oregon

2018 American Community Survey Race Categories	Homeownership Rate
White	64%
Black or African American	31%
American Indian and Alaska Native	45%
Asian	59%
Native Hawaiian and Other Pacific Islander	31%
Some other race	42%
Two or more races	47%
2018 American Community Survey Ethnicity Categories ¹⁴	Homeownership Rate
Hispanic or Latino origin	41%
White alone, not Hispanic or Latino	65%

Source: OAD analysis of 2018 5-Year American Community Survey data.

AUDIT RESULTS

Distribution by Race and Ethnicity:

- White people are more likely to earn more than \$100,000 than Oregonians from most other races and ethnicities.

Figure 12: White households are more likely to earn more than \$100,000 than households of other races and ethnicities

2018 American Community Survey Race Categories	Percent of households with incomes \$100,000 or more
White	26%
Black/African American	15%
American Indian/Alaska Native	14%
Asian	37%
Native Hawaiian/Pacific Islander*	26%
Other	14%
Two or More Races	21%
2018 American Community Survey Ethnicity Categories	Percent of households with incomes \$100,000 or more
Hispanic or Latino	15%
White, Not Hispanic or Latino	27%

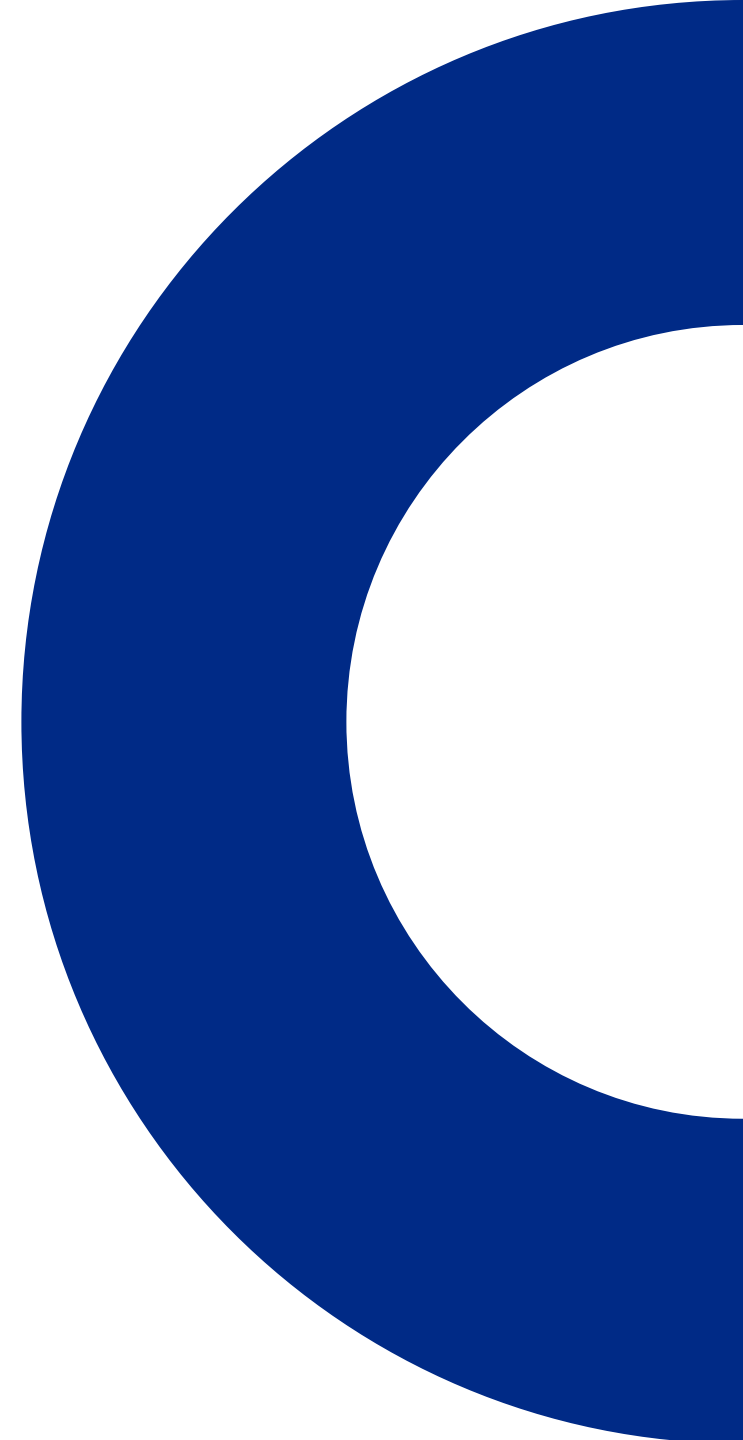
Source: OAD analysis of 2018 5-year American Community Survey data.

Note: The difference between the White and Native Hawaiian/Pacific Islander sub-groups is not statistically significant. The American Community Survey uses a different definition of income than the adjusted gross income taken from the tax return data. Also, American Community Survey data is presented at the household, not taxpayer level.

Criteria from Statute

ORS 316.003 calls for Oregon's income tax system to be:

- Equitable and fair as its basic values
- Evaluated based on guiding principles including ability to pay, even distribution, fairness, adequacy, flexibility and efficiency.
- "The tax system should be equitable where the minimum aspects of fair system are:
 - That it shields genuine subsistence income from taxation
 - That it is not regressive
 - That it imposes approximately the same tax burden on all households earning the same income"



Oregon Homeownership Center's Views on the MID

To learn about the primary barriers faced by low-to-moderate-income homebuyers we met with counselors and staff from seven Oregon Homeownership Centers located across the state:

- Primary barriers included: limited funds for down payments, high prices in the current market, and credit issues.
- All but one told us that the MID was not an effective tool.

“I can’t think of a single client that the mortgage interest deduction ever made a difference for.”

-Homeownership Center, Housing Counselor

The MID's Design Contributes to Regressive Outcomes

Higher income taxpayers:

- Are more likely to itemize deductions
- Own more expensive homes
- Pay a higher marginal tax rate

Figure 13: MID benefit per \$100 deducted increases as incomes increase

2018 Income Percentile	Income Range	MID Benefit per \$100 deducted
Lowest 20%	Below 16,100	\$0.90
Second 20%	16,100-32,900	\$5.60
Middle 20%	32,900-57,100	\$8.30
Fourth 20%	57,100-100,100	\$8.80
Top 20%	100,100 and above	\$9.20
All Resident Taxpayers		\$8.50

Source: OAD analysis of 2018 DOR resident income tax return data.



Legislative Purpose

- There is no evidence the MID was originally intended to promote homeownership.
- There is no clear purpose for the MID in Oregon's income tax statutes.
 - In their response DOR noted that this is not an issue unique to the MID.

STATE OF OREGON

Constitutional Amendments Adopted

AND

Laws Enacted by the People at the General
Election November 7, 1922

TOGETHER WITH THE

GENERAL LAWS

AND

Joint Resolutions, Concurrent Resolutions
and Memorials

ADOPTED BY THE

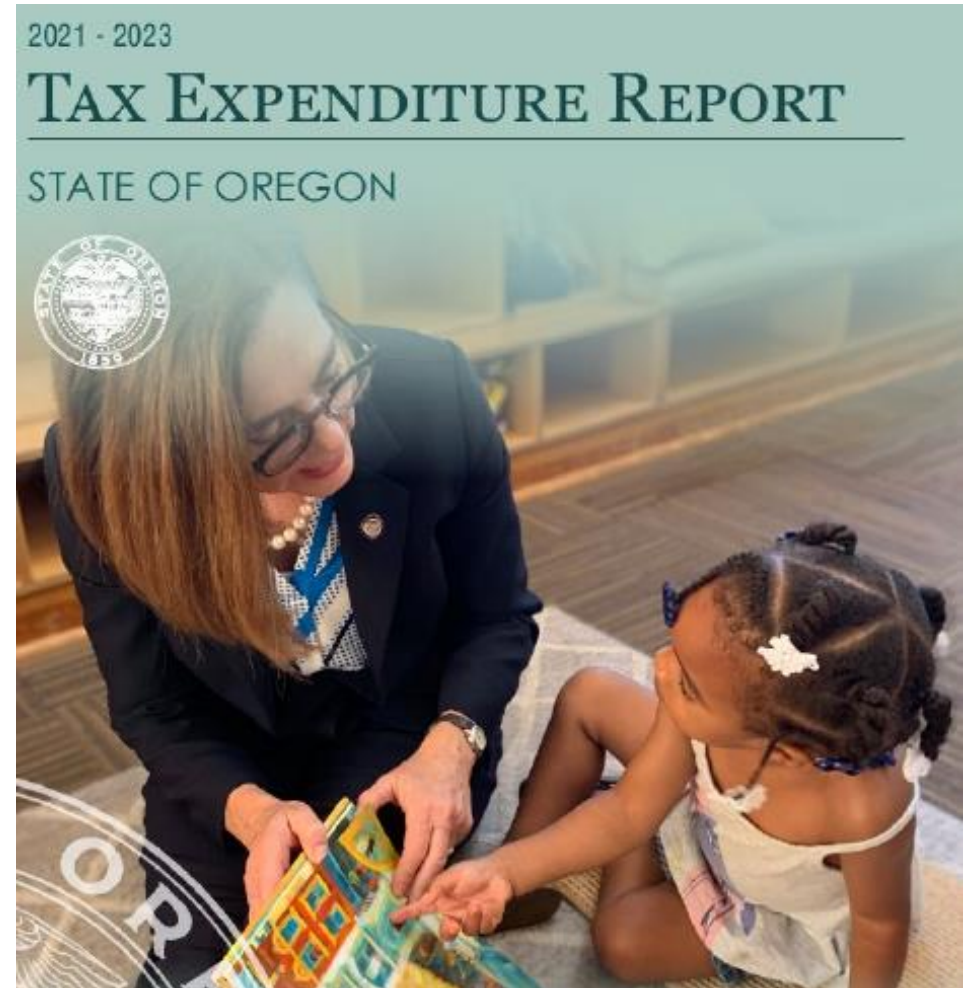
THIRTY-SECOND REGULAR SESSION
OF THE LEGISLATIVE ASSEMBLY

Beginning January 8 and
Ending February 22

1923

The MID Receives No State-level Evaluation

- The biennial Tax Expenditure Report does not include an evaluation of the MID.
- It is left out of the biennial tax credit sunset review process.
- This lack of transparency limits the visibility and accountability for the MID's regressive outcomes.





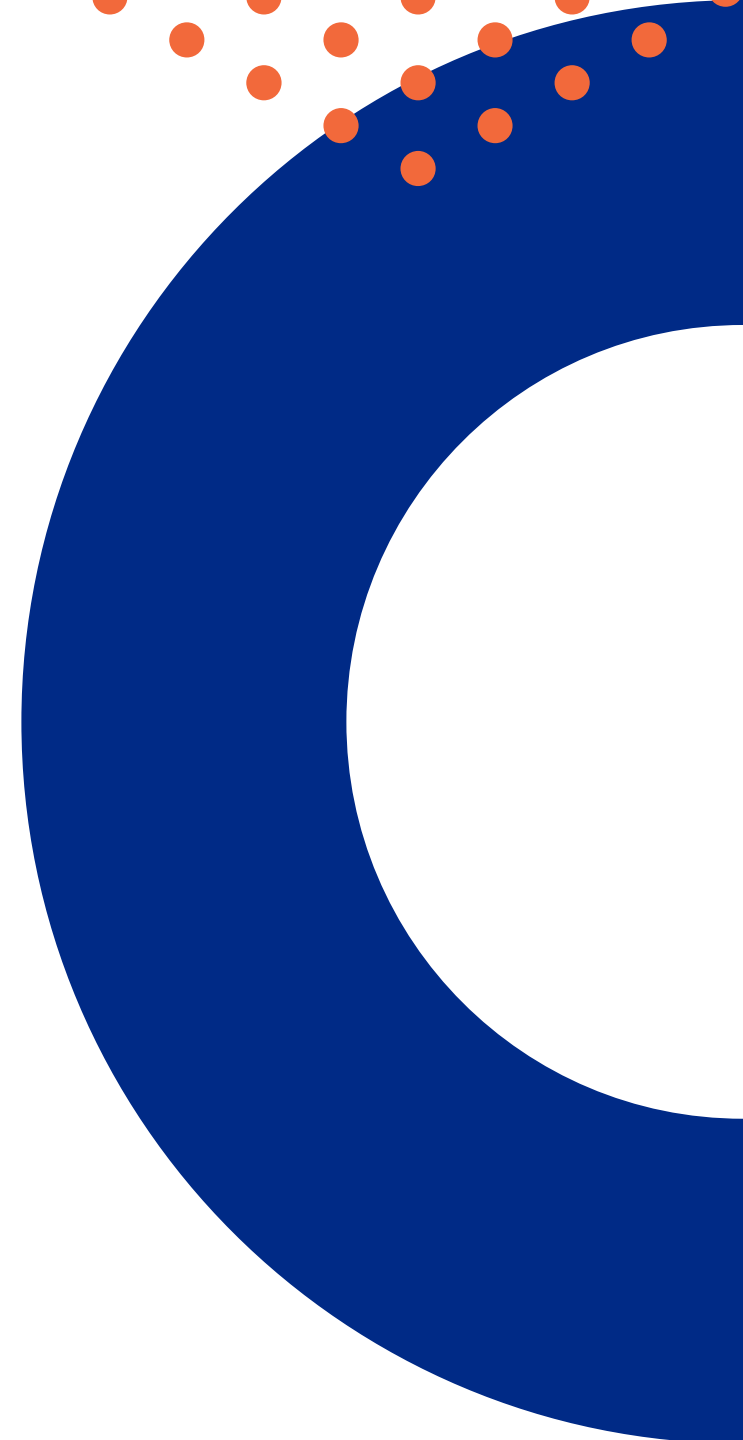
RECOMMENDATIONS

Barring Legislative action, the MID, as currently designed, will continue to produce inequitable results. To inform potential changes for a more equitable policy, a regular evaluation is warranted.

To help guide future evaluations and inform policymakers and the public, we recommend that the Legislature:

1. Identify a clear purpose for the MID in statute and determine if changes to the design of the MID are necessary to ensure that the identified purpose is met.
2. Identify a state agency that will be responsible for regularly evaluating the MID to ensure it meets its legislatively identified purpose.

QUESTIONS?





Kip Memmot, Audits Director
Division, Oregon Secretary of State
Kip.r.Memmot@sos.oregon.gov

Jonathan Bennett, Senior Auditor
Division, Oregon Secretary of State
jonathan.bennett@sos.oregon.gov