Senate Committee on Finance and Revenue
April 19, 2023

Testimony in Support of SB 976

Chair Meek, Vice-Chair Boquist, and members of the Committee:

My name is Daniel Hauser (he/him), Deputy Director for the Oregon Center for Public Policy and I respectfully submit this testimony in support of Senate Bill 976 on behalf of the Center.

The Oregon Center for Public Policy is a think tank dedicated to improving the economic outcomes for all Oregonians, particularly low-income families and Oregonians of color, through research and analysis.

Oregon faces a severe housing crisis. More than 18,000 school children don't know where they will sleep at night. Homeownership is out of reach for many families, and this crisis is not limited to urban areas. Oregon's rural counties are some of the least affordable among all rural counties nationally. Meanwhile, Oregon's biggest housing subsidy — the mortgage interest deduction — does little to alleviate the problem.

SB 976 is a common-sense reform of the mortgage interest deduction that phases out this subsidy for the most well-off homeowners who do not need the state's help to pay for their homes. SB 976 addresses the housing crisis without raising any new revenue, but instead by investing existing resources more effectively and fairly.

Oregon's mortgage interest deduction is a costly, inequitable, and ineffective housing subsidy. The deduction allows those who claim it to reduce their taxable income by the amount of interest paid on mortgage debt of up to $750,000 for new mortgages and $1 million for mortgages prior to 2018. This also includes debt on a second home.

SB 976 scales back the state mortgage interest deduction for all filing types starting at $200,000 in adjusted gross income and completely ends the state subsidy at $250,000. This protects the deduction for the vast majority of taxpayers – eliminating it only for those who do not need the state to subsidize their homes.

This bill also targets the mortgage interest deduction more intentionally by only permitting it to be used on the principal residence, the home a taxpayer lives in. At a time when so many Oregonians can't afford the rent or to buy a home, it is indefensible for the state to subsidize the purchase of second homes or vacation homes.

These two changes trim nearly $200 million off the top of the more than $900 million price tag of the mortgage interest deduction and redirect those savings equally into two funds focused on affordable homeownership and homeless services.

The mortgage interest deduction is inequitable, disadvantaging low- and moderate-income Oregonians. The benefits accrue to higher-income taxpayers because this is an itemized tax deduction; taxpayers who use the standard deduction get no benefit, even if they pay interest on a mortgage. For the 2020 tax year, 60 percent of the benefit accrued to the highest-earning 20 percent of Oregonians. Less than 4 percent of the benefits flowed to the lowest-earning 40 percent of Oregonians.

And by definition, renters — whose incomes tend to be lower than those of homeowners — receive no benefit from this housing subsidy. Landlords who rent out a house or multiple houses do not need to use this deduction; they have a separate means of deducting mortgage interest as a business expense.

Oregonians of color have faced generations of discriminatory policies that have excluded them from economic opportunities, including homeownership. This leaves them with fewer benefits from the mortgage interest deduction because they are less likely to own a home and are more likely to have lower incomes. We recently dove deep into the data on homeownership rates in Oregon by racial and ethnic identity as part of our Data for the People series. Our results found that African American, Afro-Caribbean, Ethiopian, Latinx Mexican, and Indigenous Mexican, Central American, and South American Oregonians had homeownership rates below 50 percent. Some even dip below 40 percent. The homeownership rate for Western European Oregonians stands near 70 percent.

The US Treasury has done groundbreaking research on the distribution of tax benefits by racial and ethnic identity for the mortgage interest deduction. They found that white families make up 67 percent of national tax filers, but capture 84 percent of the mortgage interest deduction benefits. This adds up to $26 billion flowing to white families - and $5 billion to everyone else. For comparison, Hispanic families are 15 percent of tax filers but get 7 percent of the benefits. Similarly, Black families are 11 percent of filers but get only 4 percent.

The deduction disproportionately flows to urban residents, leaving behind many rural Oregonians. For example, the average mortgage interest deduction benefit in Clackamas County was $331, while it was only $71 in Wheeler County. There is already significant economic inequality between urban and rural Oregon, and the mortgage interest deduction only adds to it.

Research has shown again and again that the mortgage interest deduction does not increase rates of homeownership, as an audit by the Oregon Secretary of State's office made clear. When comparing states or countries that do and do not have this subsidy, there is no significant improvement in homeownership. Despite this billion-dollar subsidy, Oregon ranks below the national average in homeownership, and even below 12 states that do not have a state mortgage interest deduction. Economists across the political spectrum agree that the mortgage interest deduction is poorly designed public policy.

The mortgage interest deduction is costly, inequitable, and ineffective. In the face of the housing crisis afflicting our state, it is urgent that the legislature passes SB 976 and transforms the state's biggest housing subsidy into a vehicle for addressing the crisis. We urge you to reform Oregon's mortgage interest deduction so the resources improve housing security in our communities.