

State housing subsidy overdue for reform

BY JUAN CARLOS ORDÓÑEZ
CONTRIBUTING COLUMNIST

Did you hear that Oregon will spend \$1 billion over the next two years helping families with their housing costs? It's true.

But the many families across our state struggling to afford a home should take little comfort because the bulk of the billion-dollar housing subsidy is not for them. Most of the money will go to those who don't need it: Oregon's most well-off families.

This housing subsidy, Oregon's most expensive housing program, is called the Oregon mortgage interest deduction. And it is a housing subsidy that cries out for reform.

A decent, affordable home is essential for the well-being of families, yet it's something too many Oregon families lack. Roughly two out of every five Oregon families are "cost burdened," meaning that they pay more than 30 percent of their income for housing. With so much of their budgets going to housing, these families must cut back elsewhere, possibly on food, medical care or other necessities. Add to that the homeless who need homes, and you recognize that housing affordability is a serious problem.

You would think, then, that our state's biggest housing subsidy would aim to fix the problem. Sadly, it doesn't.

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

Oregon's mortgage interest deduction, which mirrors the federal deduction, is projected to cost the state about \$1 billion in the 2015-17 budget cycle.

To put that in perspective, consider the cost of the proposal recently put forth by Gov. Kate Brown to build an estimated 3,000 to 4,000 affordable housing units. Rightly,



Juan Carlos Ordóñez
is communications
director for the
Oregon Center for
Public Policy, www.ocpp.org

this proposal has been called "ambitious," "historic" and "unprecedented." It's cost? \$100 million — a tenth of the projected cost of the mortgage interest deduction.

Bear in mind, the governor's laudable proposal is a one-time, bond-funded investment. The mortgage interest subsidy comes from tax dollars and recurs indefinitely.

So, who benefits from the mortgage interest deduction? By definition, to get the subsidy, you need to own a home with a mortgage and claim the deduction on your tax return. Thus, it offers no help to renters.

And it offers no help to homeowners who do not itemize deductions on their tax returns. Those who claim the standard deduction get nothing.

Thus, relatively few Oregonians benefit from the mortgage interest subsidy. In 2011, only one-third of Oregon taxpayers claimed the deduction.

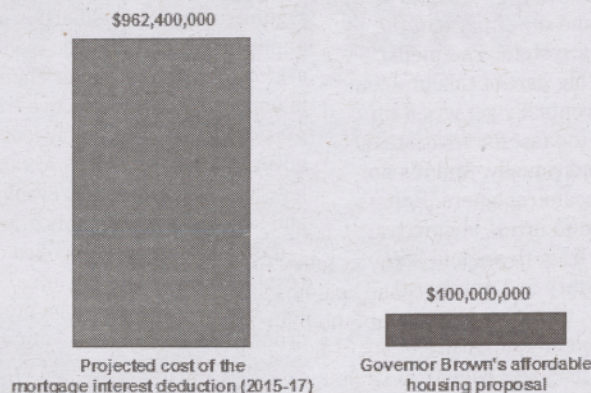
And most of the tax benefits from the deduction go to those higher up the income ladder. If you divide all Oregon taxpayers into five groups according to income, the highest-earning fifth collected more than half — 61 percent — of all the tax savings from the mortgage interest deduction in 2011. The bottom two-fifths (the lowest-earning 40 percent of all taxpayers) together received less than 3 percent of the tax benefits.

Why is it that the well-off capture most of the benefits? Because this tax subsidy is rigged that way.

First, homeowners tend to have higher

Cost of mortgage interest deduction dwarfs that of Gov. Brown's ambitious affordable housing proposal

(Projected 2015-17 cost of Oregon mortgage interest deduction compared to Governor Brown's affordable housing proposal)



Source: 2015-17 Oregon Tax Expenditure Report p. 91; 2015-17 Governor's Budget Proposal.

Oregon Center for Public Policy | www.ocpp.org

incomes than people who rent.

Second, taxpayers who itemize deductions tend to have higher incomes than taxpayers who take the standard deduction.

And third, tax deductions, as opposed to tax credits, are more valuable to those with more income — the wealthy. A high-income household with the same mortgage payment as a middle-income household will get a larger subsidy from the deduction because the high income household pays taxes at a higher tax rate. Dollar-for-dollar of interest, the deduction is worth more to high-income households.

The mortgage interest deduction is so upside-down that it even subsidizes owning a mansion and a fancy vacation home. Taxpayers can deduct interest paid on a mortgage debt of up to \$1 million on a principal home and mortgage debt of up to \$1 million on a second home.

Because most of the benefits go to those who don't need help affording a home, it's not surprising that economists agree that the

mortgage interest deduction fails to promote homeownership.

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 2013. Oregon, despite its expensive subsidy program, ranked below the national average and below all but one of those 10 states.

With so many families struggling to afford housing, it's imperative to reform the Oregon mortgage interest deduction. There are a number of ways to restructure the subsidy so that it helps those in need — low- and middle-income Oregonians — afford a home while actually promoting homeownership.

To make that a reality, organizations and individuals working to make housing more affordable, to end homelessness and to increase the economic security of families will need to come together. Together we can create the political will to reform this housing subsidy so that it truly serves the needs of Oregonians.

DELICIOUS NATURAL FOOD
FOR EVERYONE.

people's
FOOD CO-OP

3029 SE 21st AVE Portland OR 97202 • 503-674-2642 • www.peoples.coop

Sisters Of The Road

a non-profit cafe in Old Town since 1979



"This is a place where we are
connected, and what is shared is
honored and celebrated."
-Sisters Customer

NEW CAFE HOURS
Sisters is open
Tuesday-Saturday
to welcome working families.
Closed on Sunday & Monday

Everyone is welcome.
Tuesday-Saturday 10am-2:30pm

133 NW Sixth Ave.
Portland, OR 97209

main: 503 222 5694
<http://sistersoftheroad.org>