

A taxing issue

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Oregon's biggest – and most beloved – housing subsidy is subsidizing the wrong people.

That's the perspective of a growing coalition of organizations looking to modify Oregon's mortgage interest deduction, or MID, to make it more equitable for moderate- to lower-income homeowners.

These are the homeowners who need it, they say, not the state's top 20 percent of income earners, who claim more than 60 percent of the state subsidy in terms of dollars.

"At a time when we are facing a severe housing crisis in Oregon, the biggest housing subsidy in our state is mostly giving money to the most well-off Oregonians – people who already have a home, who are in secure shelter for themselves and really do not need any help from the state to afford a home," said Juan Carlos Ordóñez, communications director with the Oregon Center for Public Policy, or OCPP.

"Reforming the MID is something that should have been done a long time ago. But Oregon's housing crisis certainly adds urgency to this."

The OCPP is joining the Oregon

Opportunity Network, a statewide coalition of affordable housing and low-income services, in spearheading legislation for the 2017 legislative session in Salem. The two groups are joined by the Human Services Coalition of Oregon, Oregon Housing Alliance, Tax Fairness Oregon, and Habitat for Humanity of Oregon in calling for caps on the deduction and more equitable distribution of the subsidy.

Every homeowner knows about the MID, but not all reap the same benefits.

It allows homeowners who itemize their taxes to deduct from their taxable income the interest paid on mortgages up to \$1 million. Considering that payments in the early years of any 20- or 30-year loans are largely interest, the amount can be substantial.

The deduction is expected to cost the state an estimated \$1 billion in forgone income tax revenue for the 2017-19 budget.

While the details of the proposal are yet to be determined, the proposal lays out several modifications:

- Cap the amount of mortgage interest that can be deducted on state taxes at \$10,000. At this level, proponents say, the majority of homeowners won't be affected. A \$300,000 mortgage, for example, under current interest rates would create \$12,652 in interest payments its first year. (The median price for homes listed in Oregon is \$319,000, but in Portland it is in excess of \$400,000, according to Zillow.)

- Eliminate use of the

Housing advocates want lawmakers to cap the state's mortgage interest deduction. Realtors are ready to put up a fight for its preservation.

deduction on a second home. Proponents of the changes emphasize that this would not affect rental housing, since landlords take different deductions for rental property.

- Ultimately phase out the deduction for high-income households.

While the proposed bill cannot obligate how the revenue generated from the cap would be spent, it does call for establishing "legislative intent" to use the tax savings on affordable housing, rental housing and homelessness prevention.

Housing advocates say these modifications could generate at least \$100 million biennially for housing needs across the state.

Another option proponents say they would consider instead of the cap would be to convert the deduction into a refundable tax credit applicable to all taxpayers, not just those who itemize their taxes. It could also make higher income brackets exempt.

"Basically the policy is upside down," said Ruth Adkins, policy director with the Oregon Opportunity Network. "The Legislative Research Office has confirmed that Oregon's mortgage interest deduction costs nearly a billion each biennium. And at the same time, we know we have a housing crisis across the state, but specifically folks in low- to moderate-income families, particularly in communities of color, are shut out of homeownership. And we also have a lot of current homeowners with low incomes who are facing the possibility of losing their homes due to needing help with repairs."

Adkins said they want to see the recouped money applied to support homeownership, just at more middle- and lower-income brackets, such as starter home development and down-payment assistance for first-time homebuyers.

"We need to get this back in line with our values and what's sensible as policy, so we can free up some revenue and invest it in homeownership for low- and moderate-income families," Adkins said.

On the other side of the argument is the Oregon Association of Realtors, which has said it would oppose any new cap on the deduction. From the Realtors' perspective, the \$1 billion subsidy is a good investment in homeownership, a logical link to the federal deduction, and an incentive for the second-home market, which benefits coastal and vacation-area communities.

The proposal would apply only to state income taxes, not the higher federal taxes, but from the Realtors' perspective, it's all a slippery slope. For them, and many homeowners, the mortgage interest deduction is the sacred cow of tax deductions.

The Realtors have long maintained that the deduction encourages first-time homeownership and that without it,

Higher-income homeowners in a higher tax bracket have that same percentage applied to deductions such as for mortgage interest. Research from the Oregon Center for Public Policy, which is calling for a lower cap on the mortgage interest deduction, conclude that the top fifth of state taxpayers receive more than half – 61 percent – of the subsidy dollars.

