



April 18, 2023

Senate Committee on Finance & Revenue
Oregon State Legislature
900 Court Street NE
Salem, OR 97301

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

My name is Loren Naldoza and I am writing to you on behalf of the Oregon Housing Alliance, a coalition of over one hundred organizations that work to ensure—and advocate—for safe, stable, and affordable homes for all Oregonians. I am writing to you today to supplement my [written testimony in strong support of SB 976, which I submitted on April 12, 2023.](#)

The Housing Alliance has been made aware of a campaign by the Oregon Realtors, which seriously mischaracterizes the details of SB 976, and could have the impact of misleading legislators and the public about the scope of SB 976 and what the bill actually does.¹

Given that you may hear from your constituents who are reaching out to you via this campaign, and because the serious degree to which SB 976 is mischaracterized in this call-to-action and form letter, we have decided to respond to the points outlined in each with comments of our own.

For your reference, I am copying the text of the [1] form letter and [2] call-to-action campaign in the pages below with my comments in response to the various mischaracterizations of SB 976.

I am happy to be available to the committee if there are any questions about SB 976 or this campaign.

Respectfully,

Loren Naldoza
Oregon Housing Alliance

Attachment A1: Oregon Realtors Form Letter
Attachment A2: Oregon Realtors Form Letter (with comments)

Attachment B1: Oregon Realtors Call to Action
Attachment B2: Oregon Realtors Call to Action (with comments)

¹ Oregon Realtors, *Protect Oregon's Mortgage Interest Deduction*, available at <https://oregonrealtors.org/advocacy/action-center/?vvsrcc=%2FCampaigns%2F102320%2FRespond>, also available at [<https://perma.cc/5J6C-HPWG>].

Attachment A1: Oregon Realtors Form Letter²

Form letter text:

I am writing to urge you to vote "NO" on SB 976, which would eliminate the mortgage interest deduction (MID) for many Oregonians across the state. It's no secret that Oregon's housing costs are among the highest in the nation.

Eliminating or limiting the MID will only make the situation worse, not better. Over 586,000 Oregon filers utilized the MID to decrease the cost of owning a home.

The arbitrary income limitations in SB 976 directly impact middle-class homeowners and will make the dream of home ownership even harder to achieve. There's no proof that this tax on home ownership will do anything to make home ownership more affordable. In fact, it will make homeownership less affordable and an impractical option for many Oregonians.

With interest rates and housing costs continuing to rise, now is not the time to reduce valuable incentives for home ownership.

Please reject SB 976.

² This page does not and should not be construed to represent the Oregon Housing Alliance's position on SB 976.

Attachment A2: Oregon Realtors Form Letter (with comments)

(Comments are provided in response to the underlined passages of the letter.)

"I am writing to urge you to vote "NO" on SB 976, which would eliminate the mortgage interest deduction (MID) for many Oregonians across the state. It's no secret that Oregon's housing costs are among the highest in the nation. Eliminating or limiting the MID will only make the situation worse, not better. Over 586,000 Oregon filers utilized the MID to decrease the cost of owning a home."

Comment 1: SB 976 would disallow a taxpayer from claiming the MID only under two circumstances. First, the MID will not be available for individuals with adjusted gross income over \$250,000. Second, SB 976 would only allow the MID for the taxpayer's primary residence. This statement is misleading because it may lead the reader to assume that the scope of SB 976 is larger than it actually is.

Comment 2: There were 586,192 taxpayers who claimed the MID in Tax Year 2020.³ Using Tax Year 2020 numbers as an estimate, SB 976 would disallow the mortgage interest deduction for roughly 48,899 taxpayers (i.e., those taxpayers with AGI at \$250,000 or greater). This represents the top 8% of all taxpayers who claim the MID.

This statement is misleading because it may lead some to assume that SB 976 would impact a larger share of the 586,192 Oregon filers who have used the MID. That would not be correct. About 92% of taxpayers claiming the MID would still be able to claim the MID. In addition, as the MID does phase out over income levels (i.e., from \$200,000–\$250,000), most taxpayers owning a single home, and claiming the MID (roughly 86.9%) will see no change in their obligations as a result of SB 976 passing.

³ Legislative Revenue Office, *Mortgage Interest Deduction Phase Out*, Senate Committee on Housing & Development, Mar. 13, 2023 (citing data from the Oregon Department of Revenue), <https://olis.oregonlegislature.gov/liz/2023R1/Downloads/CommitteeMeetingDocument/264482> at 2.

Taxpayers Claiming the Mortgage Interest Deduction			
AGI Category	Tax Year 2020		
	Number	MID Amount	Avg. Ded.
≤ 50K	123,054	\$747,817,711	\$6,077
50 - 100K	194,271	\$1,418,768,042	\$7,303
100 - 125K	77,357	\$660,027,533	\$8,532
125 - 150K	54,596	\$508,482,878	\$9,314
150 - 175K	34,994	\$348,383,285	\$9,956
175 - 200K	24,876	\$266,291,681	\$10,705
200 - 225K	16,458	\$185,594,161	\$11,277
225 - 250K	11,687	\$136,607,012	\$11,689
250 - 275K	8,822	\$107,436,245	\$12,178
275 - 300K	6,527	\$81,794,211	\$12,532
300K+	33,550	\$495,780,094	\$14,777
Total	586,192	\$4,956,982,853	\$8,456

Source: Oregon Department of Revenue

Even as the MID is phasing out, households with AGI between \$200,000 and \$250,000 will still receive hefty benefits that represent a combination of a fraction of the Oregon MID and a full federal MID. [Tom Cusack's testimony on OLIS](#) provides a more in-depth analysis of the sizable benefits still enjoyed by families with \$225,000 AGI.

“The arbitrary income limitations in SB 976 directly impact middle-class homeowners and will make the dream of home ownership even harder to achieve.”

Comment 1: The letter asserts that SB 976 would “directly” impact middle-class homeowners. The Pew Research Center estimates U.S. “middle class” incomes to range from \$48,500 to \$145,500, depending precisely on the area of the country.⁴ For a household of five, the Pew Research Center defined an adjusted gross income (AGI) of \$200,000 to be considered a comfortably upper income tier for the [1] Bend-Redmond, [2] Eugene, [3] Medford, and [4] Portland-Vancouver-Hillsboro metropolitan areas. This bill does not “directly” impact middle-class homeowners because their income levels would be too low to fall under the scope of SB 976, and there would not result in any change to their tax obligations because of this bill’s passage.

Comment 2: The letter asserts that the income levels chosen were arbitrary. This is not correct. The choice of denying the wealthiest Oregonians from accessing a state housing

⁴ Jesse Bennett, Richard Fry & Rakesh Kochhar, *Are You in the American Middle Class? Find Out with Our Income Calculator*, PEW RESEARCH CTR., July 23, 2020, <https://www.pewresearch.org/fact-tank/2020/07/23/are-you-in-the-american-middle-class/>.

subsidy—which they do not need to stay stably housed—is not arbitrary. The exact income ranges chosen in SB 976 was the result of conversations with advocates, real estate professionals, and direct service providers in choosing an income level in which it would be reasonable to assume no state housing subsidy could be needed. There is also sizable discussion and legislative history from the Joint Task Force on Addressing Racial Disparities in Homeownership during the 2021-2022 Interim discussing the concept which is now SB 976.⁵

“There’s no proof that this tax on home ownership will do anything to make home ownership more affordable. In fact, it will make homeownership less affordable and an impractical option for many Oregonians.”

Comment 1: The form letter calls SB 976 a tax. SB 976 in literal terms is not a tax; it is a proposal to rein in wasteful components of a deduction. Even then, SB 976 keeps the MID unchanged for most taxpayers.

Comment 2: The form letter argues that SB 976 will not make homeownership more affordable. Various think-tanks such as the Brookings Institution have found that the MID “encourages the construction of larger, more expensive houses, which, in turn, leads to higher energy costs, urban sprawl, and fewer investment funds available for business.”

Additionally, “[b]y encouraging people to finance homes with too much debt, the deduction increased the likelihood of people defaulting when housing prices fell in the financial crisis, thus contributing to the depth of the Great Recession.”⁶ If true, the MID would have the impact of flooding our housing stock with homes that no middle-class Oregonian could ever dream of owning. Reform of the MID could disincentivize the construction of needless luxury homes and focus on the supply of homeownership products that are more affordable for individuals making under \$250,000 AGI.

Comment 3: The form letter argues that SB 976 will make homeownership less affordable. For this point to be true, it would first have to be proven that the various programs that SB 976 would fund do not help homeowners achieve affordable homeownership.

SB 976 would rededicate otherwise foregone revenue to programs that have been proven to promote affordable homeownership opportunities among families with lower incomes. This includes the beloved Oregon Individual Development (IDA) program, which has made the dream of homeownership a reality for lower income households since 1999.⁷ SB 976 would also rededicate funding to fund existing down payment assistance programs, some of which are administered as part of valuable housing counseling programs across the state.

⁵ See generally Joint Task Force on Addressing Racial Disparities in Home Ownership, Oregon Legislative Information System. <https://olis.oregonlegislature.gov/liz/2021I1/Committees/JARDHO/Overview>.

⁶ William G. Gale, *It’s Time to Gut the Mortgage Interest Deduction*, BROOKINGS INSTITUTION, Nov. 6, 2017, <https://www.brookings.edu/blog/up-front/2017/11/06/its-time-to-gut-the-mortgage-interest-deduction/>.

⁷ For more information on the positive impact of IDAs on homeownership rates among families with lower incomes, see Oregon IDA Initiative, *Impact of the Initiative: Evaluation*, at <https://oregonidainitiative.org/evaluation/>.

“With interest rates and housing costs continuing to rise, now is not the time to reduce valuable incentives for home ownership.”

Comment: The only state incentives that would be reduced as the result of SB 976’s passage would a fraction of the MID that goes to households whose adjusted gross income is greater than \$250,000. Given the various revenue shortfalls experienced in this session and given Governor Kotek’s bold plan to address our housing crisis, now is precisely the time to end unnecessary benefits for Oregon’s richest, and to rededicate that funding to households whose access to safe, stable, and affordable housing is furthest out of reach.

Attachment B1: Oregon Realtors Call to Action for SB 976⁸

Call-to-action text:

*“Oregon’s Mortgage Interest Deduction is Once Again Under Attack!
On Wednesday at 3 pm, [SB 976](#) will be up for a hearing in the Senate Finance & Revenue Committee.*

We are in the middle of a housing crisis in Oregon. The last thing we need is the elimination of incentives that make homeownership possible for Oregonians in our communities.

*The bill would **effectively eliminate the mortgage interest deduction** for many Oregonians throughout the state. The mortgage interest deduction has been a foundational component of home ownership since the inception of the federal tax code.*

***Oregonians at all income levels rely on the mortgage interest deduction to afford their homes.** The bill sets arbitrary income limitations on the mortgage interest deduction, leaving many Oregonians to face even higher taxes to keep their homes.*

*While the bill has noble goals to increase homeownership for some Oregonians, **that should not come at the cost of making housing less affordable for others.** The fundamental mechanics of the bill put in jeopardy the programs it aims to fund by requiring state agencies to guess on how much money has come into the state coffers.*

With interest rates and housing costs continuing to rise, now is not the time to reduce valuable incentives for home ownership.

We must act to STOP SB 976 now!

Contact your legislator and tell them to vote “NO” on SB 976”

⁸ This page does not and should not be construed to represent the Oregon Housing Alliance’s position on SB 976.

Attachment B2: Oregon Realtors Call to Action for SB 976 (with comments)
(Comments are provided in response to the underlined passages of the letter.)

Oregon's Mortgage Interest Deduction is Once Again Under Attack!
On Wednesday at 3 pm, SB 976 will be up for a hearing in the Senate Finance & Revenue Committee.

"We are in the middle of a housing crisis in Oregon. The last thing we need is the elimination of incentives that make homeownership possible for Oregonians in our communities."

Comment: This assertion is potentially misleading because it suggests that the scope of SB 976 is greater than it is.

SB 976 would disallow the MID only under two circumstances. First, the MID will not be available for individuals with adjusted gross income over \$250,000. Second, SB 976 would only allow the MID for the taxpayer's primary residence.

The call-to-action argues, without support, that by disallowing a housing subsidy for the richest Oregonians in our state, it would somehow impact the ability of a family with \$150,000 AGI to obtain homeownership. In my previous comments, it has been made clear that a family with \$200,000 or less in AGI would not experience any difference in their tax obligations, and their MID on their primary residence would remain intact.

"The bill would effectively eliminate the mortgage interest deduction for many Oregonians throughout the state."

Comment: This assertion also could potentially misconstrue the true scope of SB 976.

There are 586,192 taxpayers who claimed the MID in Tax Year 2020.⁹

Using Tax Year 2020 numbers as an estimate, SB 976 would disallow the mortgage interest deduction for 48,899 taxpayers (i.e., those taxpayers with AGI at \$250,000 or greater). This represents the top 8% of all taxpayers who claim the MID.

Roughly 92% of the 586,192 taxpayers claiming the MID will still be able to claim the MID. In addition, as the MID does phase out over income levels (i.e., from \$200,001–\$250,000), most taxpayers claiming the MID (roughly 86.9%) will see no change in their MID connected to their primary residence.

⁹ Legislative Revenue Office, *Mortgage Interest Deduction Phase Out*, Senate Committee on Housing & Development, Mar. 13, 2023 (citing data from the Oregon Department of Revenue), <https://olis.oregonlegislature.gov/liz/2023R1/Downloads/CommitteeMeetingDocument/264482> at 2.

"The mortgage interest deduction has been a foundational component of home ownership since the inception of the federal tax code."

Comment: This assertion misconstrues the legislative history of the mortgage interest deduction. The earliest iterations of the federal income tax in our country allowed the deductibility of various different forms of interest, though there is no evidence that Congress thought about mortgage interest deductibility as a stepping-stone to middle-class homeownership; in fact, the first tax excluded the first \$3,000 of income, and most people who owned a home did not have a mortgage, so the deduction on mortgage interest did not play much of a role.¹⁰

"Oregonians at all income levels rely on the mortgage interest deduction to afford their homes. The bill sets arbitrary income limitations on the mortgage interest deduction, leaving many Oregonians to face even higher taxes to keep their homes."

¹⁰ Gerald Prante, *The History of the Mortgage Interest Deduction*, TAX FOUNDATION, Mar. 6, 2006, (citing Roger Lowenstein, and arguing that the mortgage interest deduction “essentially treats individuals’ housing expenses like a business expense, allowing them to deduct it from taxable income. But the big difference between a business deducting interest and individual deducting housing-related interest is that the business must pay taxes on the net income for which that expense was incurred, whereas no one pays a tax on the ***imputed income*** they earn from owning a home” (emphasis added)).

Comment: This statement is misleading because it leads the reader to believe that SB 976 could directly impact middle-class Oregonians. It is also misleading because it does not state what those income limitations are, potentially causing some households with lower incomes to believe that SB 976 might affect their tax obligations.

SB 976 will allow Oregonians at most income levels to claim the Oregon's full mortgage interest deduction as they normally could. The only difference is for those individuals who earn more than \$200,000, the mortgage interest deduction will begin to *gradually* phase out. For households with AGI at \$200,000 or less, they will see no change to their primary home mortgage interest resulting SB 976.

Taxpayers Claiming the Mortgage Interest Deduction			
AGI Category	Tax Year 2020		
	Number	MID Amount	Avg. Ded.
≤ 50K	123,054	\$747,817,711	\$6,077
50 - 100K	194,271	\$1,418,768,042	\$7,303
100 - 125K	77,357	\$660,027,533	\$8,532
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Total	586,192	\$4,956,982,853	\$8,456

Source: Oregon Department of Revenue

“While the bill has noble goals to increase homeownership for some Oregonians, that should not come at the cost of making housing less affordable for others.”

Comment: The call-to-action argues that SB 976 will make homeownership less affordable. As previously mentioned, reform of the MID may tend to disincentivize the construction of needless luxury homes, and instead lead to more focus on the supply of homeownership products that are more affordable for individuals making under \$250,000 AGI.

In addition, SB 976 would rededicate otherwise foregone revenue to programs that have been proven to promote homeownership among families with lower incomes. This includes the Oregon Individual Development (IDA) program, which, as previously mentioned, has made the dream of homeownership a reality for lower income households since 1999.¹¹ SB 976 would also rededicate funding to fund existing down payment assistance programs, some of which are administered as part of valuable housing counseling programs across the state.

The fundamental mechanics of the bill put in jeopardy the programs it aims to fund by requiring state agencies to guess on how much money has come into the state coffers.

Comment: The Department of Revenue already collects data on how much in MID is claimed each tax year (see table above). Additionally, the concept of a gradual phase-out of a tax expenditure is not a foreign concept to individuals familiar with the state or federal tax code.¹² SB 976 implements familiar guardrails to rein in wasteful expenditures that would otherwise go to wealthy families who are in no need of state housing subsidies.

¹¹ For more information on the positive impact of IDAs on homeownership rates among families with lower incomes, see Oregon IDA Initiative, *Impact of the Initiative: Evaluation*, at <https://oregonidainitiative.org/evaluation/>.

¹² For example, see the gradual phase out mechanism of the federal earned income tax credit (EITC) at TAX POLICY CENTER, *What is the Earned Income Tax Credit?*, May 2021, <https://www.taxpolicycenter.org/briefing-book/what-earned-income-tax-credit#:~:text=By%20design%2C%20the%20EITC%20only,to%20families%20with%20more%20children>.