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Trump's Tax Law Hurts Oregon Homeowners

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Press contact: Rachel McCleery – (202) 224-4515
@SenateFinance

In December 2017, Congress passed Trump's Tax Law. Enacting major tax legislation like Trump's Tax Law is fundamentally about choices. Republicans chose to take tax deductions away from homeowners – including thousands of middle class households in Oregon – to fund tax breaks for corporations and the wealthy.

Trump's Tax Law Curbs the Property Tax Deduction

Prior to the passage of Trump's tax law, homeowners were able to deduct all the property taxes they paid on their homes as part of the general deduction for state and local taxes. This deduction dates back to the enactment of the first federal income tax in 1913.[1]

Trump's law, however, sets a limit of $10,000 for the amount that tax filers can deduct on their federal tax returns for payments of state and local taxes, including property taxes. This change is already harming homeowners in Oregon – and since the $10,000 limit is not indexed to inflation, more and more Oregonians (and U.S. taxpayers generally) will be harmed by the limit over time.

In 2015, under prior tax law, about 582,000 Oregon homeowners were able to deduct their full property taxes on their federal returns. These Oregonians claimed an average property tax deduction of $4,170.[2]

Approximately 190,000 of the above Oregon homeowners (or 33%) had combined state and local tax deductions totaling over $10,000.[3] About 134,000 out of these 190,000 homeowners had incomes below $200,000.[4] If Trump's tax law had been in effect in 2015, these homeowners would have been unable to claim the full deduction for the combination of state income taxes and property taxes.[5]

Trump's Tax Law Repeals Home Equity Loan Interest Deduction

For many families, their home is their single largest asset. Home equity loans, which are secured by a family's home, are often the most affordable means for homeowners to obtain credit. In Oregon, home equity loans for a family with average credit are generally available at rates between 4 and 6 percent.[6] This can be significantly below interest rates

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[1] Tax Foundation, The State and Local Tax Deduction: A Primer (March 15, 2017) (https://taxfoundation.org/state-and-local-tax-deduction-primer/).

[2] Oregon Department of Revenue, personal income tax return data from tax year 2015.

[3] This report assumes that the same percentage of homeowners in Oregon will lose the ability to deduct the full amount of their property taxes under Trump's tax law in 2018.

[4] Oregon Department of Revenue *op. cit*.

[5] Ibid.

[6] ERate, Home Equity Loan Rates in Oregon (https://www.erate.com/home-equity/oregon/home-equity-line-of-credit?loan_amount=50%2C000&periods=home-equity-line-of-credit&points=0&state=oregon) (rate quote on June 13, 2018, for a $30,000 loan amount).

for unsecured personal loans, which can range from 5.99 percent to 35.99 percent for an Oregonian with average credit. Home equity loan rates can also be below interest rates for credit cards, which can range from 13.49 percent to 26.49 percent.[7] Before additional loan fees are assessed, the federal loan rate for parents who need to borrow to pay for their children's college education was 7 percent as of June 2018 – higher than the home equity loan rates cited above.[8]

Home equity loans can be used for a wide range of purposes, including paying for children to go to college, paying for unexpected expenses like unplanned medical costs, or consolidating other more costly debt. There are three types of loan vehicles through which homeowners may borrow against the value of their homes, generically referred to as "home equity loans:" (1) extracting cash from their primary mortgage by refinancing, i.e., increase their mortgage balance by taking money out; (2) obtaining a second mortgage, otherwise referred to as a "junior lien mortgage," which typically carries a slightly higher interest rate than the primary mortgage; or (3) obtaining a Home Equity Line of Credit (HELOC), which functions like a credit card that charges against a set amount of home equity.

Since the first federal income tax was enacted in 1913, the tax code has consistently allowed homeowners to deduct interest payments on home loans. Under the tax code as in effect in 2017, for example, homeowners could deduct the interest on up to $100,000 of home equity loans. Trump's tax law, however, significantly restricts this long-standing deduction by prohibiting homeowners from deducting the interest paid on borrowing against the value of their home for any purpose other than home improvement.[9] Homeowners can no longer deduct the interest paid on loans that go to such costs as college tuition, medical bills, or consolidating debt. In a further departure from ordinary practice, *Trump's tax law applies this change retroactively* – that is, even homeowners

[7] Bankrate.com, Personal Loan Rates (https://www.bankrate.com/personal-loans/) (rate quote on June 13, 2018 for a household in zip code 97215, with a "fair" credit score (640-699) and median annual income of a mortgage holder in Oregon of $92,367 according to the American Community Survey table S2506), seeking a loan of $30,000); Creditcards.com, Credit Cards for Fair Credit (https://www.creditcards.com/) (rate quote on June13, 2018).

[8] U.S. Department of Education, Office of Federal Student Aid, "Understand how interest is calculated and what fees are associated with your federal student loan" (https://studentaid.ed.gov/sa/types/loans/interest-rates).

[9] Internal Revenue Service, "Interest on Home Equity Loans Often Still Deductible under New Law," (Feb. 21, 2018) (https://www.irs.gov/newsroom/interest-on-home-equity-loans-often-still-deductible-under-new-law). Homeowners can also deduct the interest if the loan proceeds are used for home acquisition.

who have *existing* home equity loans are barred from claiming an interest deduction on their 2018 taxes.[10]

These tax law changes most harm homeowners in Oregon who have existing home equity loans that have been used for purposes other than home improvement. There are approximately 137,000 of these homeowners (or 73 percent of Oregonians with existing home equity loans), assuming the use of home equity borrowing in Oregon follows national trends.[11] All these homeowners are restricted in their ability to deduct interest on loan payments made after December 31, 2017, and most cannot claim any interest deduction at all in 2018.[12]

The financial hit on these homeowners can be substantial. Across the country, the average balance of a fixed-term home equity loan in September 2017 was $49,141, with an average interest rate of 5.1 percent and average first-year interest of $2,301.[13] For HELOCs, the numbers are $31,730, 4.25 percent, and $1,349, respectively. For an Oregon homeowner who was itemizing deductions under previous tax rules and whose home equity loan was not used for home improvement, Trump's tax law significantly increases the homeowner's after-tax interest rate.

Using the home equity numbers above, the after-tax interest rate for a family in the 12 percent tax bracket increases from 4.5 percent to 5.1 percent, which is a big jump. These homeowners would lose $276 in tax deductions in the first year, which is effectively a tax increase.

For a family in the 22 percent tax bracket, the after-tax interest rate increases from 4.0 percent to 5.1 percent, which is an even bigger jump. In the first year, this taxpayer loses $506 in tax deductions.

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[10] These provisions under the recent tax law will sunset at the end of 2025. Joint Committee on Taxation, "Conference Report to Accompany H.R. 1" (Dec. 15, 2017) (https://www.gpo.gov/fdsys/pkg/CRPT-115hrpt466/pdf/CRPT-115hrpt466.pdf).

[11] The *2016 American Community Survey* (Table B25081, Mortgage Status) is the source for the number of homeowners with a mortgage, second mortgage, or HELOC in Oregon. See the Appendix for more detail.

[12] Homeowners who use their home equity loan in part for home improvement and in part for other purposes will be able to deduct the portion of the interest payment attributable to the home improvement. According to the *2016 Survey of Consumer Expectations* (Housing Survey), 53.9 percent of those using second mortgages or HELOCs for purposes other than home improvement use them exclusively for other purposes, meaning they will no longer be able to deduct any interest paid. For those refinancing primary mortgages to extract cash, 55.6 percent will no longer be able to deduct any interest paid.

[13] See RaddonReport, "How Will Recent 2018 Tax Changes Impact Home Equity Products?" (Jan. 18, 2018) (https://www.raddon.com/raddon-report/how-will-recent-2018-tax-changes-impact-home-equity-products)

While homeowners with existing home equity loans are most affected by Trump's tax law, they are not the only ones impacted. There are 949,000 homeowners in Oregon.[14] Under Trump's tax law, none of them can take an interest deduction for home equity loans they use to pay for their children's college education, unexpected medical bills, or any purpose other than home improvement.

Trump and Congressional Republicans Chose to Pass a Deficit-Exploding Corporate Handout Instead of Helping Homeowners

Trump's tax law contains provisions that raise revenue along with provisions that lose revenue. According to the Joint Committee on Taxation (JCT), the official tax scorekeeper for Congress, the revenue-raising provisions will collectively increase federal tax revenue by $4.047 trillion over the next ten years, while the revenue-reducing provisions will cost the Treasury $5.503 trillion over the same period. The net effect is that the tax legislation will increase federal deficits by at least $1.456 trillion over the next ten years.[15] After accounting for both economic growth and increased interest payments on new debt, the Congressional Budget Office estimates Trump's tax law will add $1.854 trillion to the national debt.[16]

From this perspective, Trump's tax law can be viewed as a series of choices. Although overall the new law increases deficits, many activities are taxed more to pay for the tax breaks other activities receive.

JCT did not provide separate scores for the homeowner provisions. Instead, the limitations on the property tax deduction and the home equity loan interest deduction are lumped together in a single score for the repeal of particular itemized deductions, which JCT estimates will raise $668 billion over ten years.[17] In fact, of the tax changes discussed in this briefing, none is separately scored.

The elimination of the special tax breaks for some taxpayers could have paid for the retention of some of the long-standing deductions for homeownership. For example, Republicans could have preserved the ability of homeowners to deduct their full state and local income taxes, including real estate property taxes. Republicans could have also preserved the deduction for interest on existing home equity loans used for college tuition or to pay for unexpected medical costs – or at least provided a transition period for those who took out home equity loans to pay for expenses other than home improvement.

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[14] According to tabulations from the Census Bureau, *2016 American Community Survey*.

[15] Joint Committee on Taxation, "Estimated Budget Effects of the Conference Agreement for H.R. 1, the "Tax Cuts and Jobs Act," (Dec. 18, 201) (https://www.jct.gov/publications.html?func=startdown&id=5053).

[16] Congressional Budget Office. "The Budget and Economic Outlook: 2018 to 2028." https://www.cbo.gov/system/files/115th-congress-2017-2018/reports/53651-outlook.pdf

In drafting the tax law, Republicans made a different choice. The end result in Oregon is that 190,000 homeowners have lost full property tax deductions (with 134,000 affected homeowners having incomes below $200,000), 949,000 homeowners have lost the ability to deduct home equity loans used for college tuition, medical expenses, and many other purposes, and 137,000 homeowners have lost the ability to deduct the interest on home equity loans that they have already taken out.

APPENDIX – METHODOLOGY

The goal of this report is not to estimate whether individual homeowners in Oregon are paying more or less in taxes under Trump's tax law than they would have paid under prior law. Rather, the goal is to examine how Trump's tax law affects one important real estate-related activity: owning a home in Oregon.

The data on the number of homeowners in Oregon potentially affected by the new federal law comes from tax year 2015 personal income tax returns compiled by the Oregon Department of Revenue.

Other data in the report comes from *Co-Equal.Org*, which relied on several data sources to estimate the consequences in Oregon of the loss of the homeowner deductions repealed under Trump's tax law. These data sources include:

- Data from the *2016 American Community Survey* conducted by the U.S. Census Bureau, which is the source for the number of homeowners in Oregon, as well as the financial attributes of those homeowners, such as the types of home equity borrowing they have;

- Data from the *Survey of Consumer Expectations* conducted by the Federal Reserve Bank of New York and the *Survey of Consumer Finances* conducted by the Federal Reserve Board of Governors, which is the source for the proportion of home equity borrowing used for purposes other than home improvement;