

From: michael oliver
To: [LRO](#)
Subject: Testimony re: HB 4007
Date: Tuesday, February 20, 2018 12:22:42 PM

Greetings Chair Barnhart and members of the House Committee on Revenue:

My name is Michael Oliver and I am a constituent of House District 38 and Senate District 19.

I'm writing today regarding HB 4007 to state my distinct preference that Oregon approach the matter of enhancing first-time homeownership via other, existing State and federal vehicles.

I greatly prefer expansion/modification of the Oregon Individual Development Account (IDA) Program and/or use of the Individual Retirement Account (IRA), depending on one's income, to achieve this goal.

I don't necessarily find fault with the savings plan proposed by HB 4007, but instead believe it is inferior to both of the above-mentioned vehicles depending on one's income. I also wanted to make clear that I generally support the Oregon Housing Alliance, but on this bill, believe they may not have performed due diligence prior to developing their legislative concept for HB 4007.

Advantages of the Oregon Individual Development Account (IDA):

From my perspective, I believe it would be more prudent to expand the Oregon IDA Program component related to first-time home buyers than introducing yet another vehicle for Oregonians to save for a down payment, closing costs, etc.

I believe that if home ownership is a genuine objective of the Legislature, then selecting the most efficacious vehicle to achieve that is paramount to effecting change.

The IDA Program allows eligible Oregonians to establish an account that is matched 3:1 by tax credits (e.g., for every \$1 dollar saved, it is matched with \$3 from tax credits). So, unlike with HB 4007, Oregon taxpayers can also benefit and help move forward Oregon's first-time homeowner rate by contributing to the IDA Program and obtaining an Oregon tax credit. I see this partnership as a distinct win-win and one that also greatly accelerates the timeframe within which a saver would have enough funds to purchase their first residence.

I believe this matching component is especially critical for those savers with low or limited incomes and low probabilities of receiving an inheritance or other generational wealth transfer(s).

The Oregon IDA Program also has an existing network of community partners that provide education, counseling, etc as a part of savers participation. As it relates to saving for housing, it seems ludicrous to try and replicate these already existing resources and relationships with a new State program and program administrator(s).

If there were no Oregon IDA Program, perhaps HB 4007 would make sense for median income or lower Oregonians. But, the IDA Program has documented success since its inception in 1999 that I believe is incomparable to HB 4007's potential outcomes.

I am a long-time Oregon IDA supporter and learned a couple of weeks ago that the tax credit expenditures have been completely sold for tax year 2018. That's right: sold out as of February 13. I wonder how many more Oregonians could benefit through the IDA Program if the amount of tax credit expenditures were enhanced for 2018?

For Oregonians who wish to begin saving for first-time homeownership, my strong preference would be to modify the participation eligibility of the Oregon IDA program - specifically for home ownership - and greatly expand the amount of tax credit expenditures associated with the program.

Again, doing so would create a win-win for both savers and Oregon taxpayers and it would also greatly accelerate the likelihood of a more rapid escalation in first-time home ownership rates.

Advantages of an Individual Retirement Account (IRA):

When evaluating HB 4007, I wondered how it might stack up against another existing vehicle many use for first-time homeownership – the traditional IRA.

When doing so, I concluded that an IRA also has significant advantages over the first-time homeowner account proposed by HB 4007. Here's why:

1. Both offer options to save for a first home: As you know, IRAs can be used without regard for age and/or early withdrawal penalties for the purpose of building, renovating or purchasing a first home. In fact, IRAs offer more flexibility under current IRS regulations than what is proposed in HB 4007 in terms of funding new construction, modifications/improvements and/or the types of properties that qualify as a first-time home purchase.
2. Both offer flexibility in terms of with what types of financial institutions where one can open an account.
3. Both offer tax advantages for contributions: However, an IRA has the advantage of being able to contribute \$5,500/year (for savers under 50), rather than \$5,000 (for a single filer) for the HB 4007 savings account. In addition, the IRA offers the advantage of "spousal" contributions that HB 4007 does not and that savers who file jointly can hold multiple IRAs, which is disallowed for savings accounts under HB 4007.
4. The amounts for deductibility from federal taxes based on income are significantly different: Deductibility for IRA contributions are limited by income only in instances where the taxpayer also has an employer-sponsored retirement plan, not so for the HB 4007 account. Thinking about who would open an HB 4007 account, it seems that the appeal would primarily be for tax filers who do not have an employer-sponsored retirement plan but do have sufficient incomes to afford the diversion of \$415-\$460/month into either option. (In this regard, it seems far more prudent to use a vehicle that allows for a far greater range of uses, including retirement, than the singular focus of HB 4007.) IRA holders with an AGI of less

than \$63K/year are also eligible for a federal “saver’s tax credit” that does not exist with the HB 4007 plan. So, in this regard, the IRA has potentially significant tax deductibility and tax credit advantages over HB 4007.

5. Both offer tax shelter for appreciation: That said, the plan described by HB 4007 limits the appreciation and account duration to 10 years. This is a major flaw in my opinion. Assuming one needs to save approximately 20% of contract price for down payment, closing costs and related purchase expenses on a median priced Oregon home (\$285,000 or \$57,000), it would take most savers at least 7, if not closer to 9 years, to come up with this amount under the HB 4007 plan. Whereas educating savers that they can use their IRA for the purchase of a first home would oftentimes leverage existing savings they have already contributed. Too, there is no limitation for how long a saver can own an IRA. IRAs can also be passed to heirs should a saver die, whereas an HB 4007 account cannot.

6. There are distinct portability differences: The HB 4007 plan requires a saver to continuously reside in Oregon for the period of their savings. The IRA is completely portable and allows young individuals and families the flexibility to move for job and/or educational opportunities and save for their first home regardless of where they live. To me, this is a huge advantage over the HB 4007 plan.

7. There are distinct penalty differences: The HB 4007 plan requires a payment of 10% penalty, in addition to claiming 100% of a withdrawal as taxable income, for withdrawals that are for purposes other than a qualifying first time home purchase and/or for savings accounts that exist for more than 10 years. The IRA can be used without penalty for qualifying educational and a variety of other and, for many, equally important other potential expenses pre-retirement.

8. Infrastructure and Administrative expenses to the State of Oregon: HB 4007 calls for the Dept of Revenue and other agencies to perform certain accounting and other acts, whereas an IRA does not. There is a fiscal requirement of General Funds to implement HB 4007 (which have yet to be calculated by LRO) which, I would argue, could be better utilized by expanding the current tax credit expenditure for the Oregon IDA Program.

Absent from the conversation regarding the merits of HB 4007 is a data-driven analysis of the profile - which current or future Oregonians - would likely open and use a HB 4007 savings account to purchase their first home.

I find this disturbing because when you think about it, it is a very limited portion of Oregon’s citizens who would both have the financial wherewithal to contribute and who would qualify as first-time homeowners under HB 4007. I also suspect that any savers who consult a financial professional would be counseled to instead open an Oregon IDA account (if median income or lower) and/or maximizing their contributions to an IRA (if a higher than median income earner), both of which I believe have distinct advantages over what is being proposed by HB 4007.

So, I really cannot see how a savings plan under HB 4007 creates opportunity that doesn’t already exist regardless of one’s income. The savings plan component of HB 4007 would require the expenditure of General Funds to administer when there are existing programs that are expenditure neutral.

HB 4007’s saving account appears to me to be a solution to a problem for which there are

already superior, existing options. It seems a bit disingenuous to be truthful.

Recording and related Fee increases:

Regarding the other portion of HB 4007 - the recording and related fee increases - I am supportive.

They make sense and could help seed the creation of multi-family and other specialty housing needs (if the funds established are actually used for the purpose created by future Legislatures). In this sense, I wish HB 4007 only addressed increasing these fees for the purposes stated.

Thank you for considering my perspective and analysis of HB 4007.

Regards,

Michael Oliver

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