Date of Hearing: May 15, 2024

ASSEMBLY COMMITTEE ON APPROPRIATIONS
Buffy Wicks, Chair
AB 1932 (Ward) – As Amended April 3, 2024

Policy Committee:	Housing and Community Development	Vote:	7 - 2
	Revenue and Taxation		4 - 3

Urgency: No State Mandated Local Program: No Reimbursable: No

SUMMARY:

This bill disallows the mortgage interest deduction (MID) under the Personal Income Tax (PIT) Law on a taxpayer's second home and allocates the revenue gain to the Housing, Homeownership, and Homelessness Prevention Response Fund.

Specifically, this bill:

1) Disallows, for taxable years beginning on or after January 1, 2025, the deduction of acquisition indebtedness with respect to a qualified residence of a taxpayer that is not the taxpayer's principal residence.

2) Requires, by June 1, 2025, the Franchise Tax Board (FTB), in consultation with the Department of Finance (DOF), to annually estimate the amount of additional revenue resulting from the disallowance in the prior calendar year and notify the State Controller's Office (SCO) of that amount.

3) Establishes the continuously appropriated Housing, Homeownership, and Homelessness Prevention Response Fund (Fund) in the State Treasury and directs the SCO, beginning June 1, 2026, to transfer the estimated amount from the General Fund (GF) to the Fund.

4) Requires moneys from the Fund to be continuously appropriated, as follows: (a) 50% to the Multifamily Housing Program, (b) 25% to support homeownership opportunities for first-time homebuyers, and (c) 25% to local public housing authorities to provide housing navigation services and landlord incentives for housing voucher recipients.

FISCAL EFFECT:

1) GF revenue gain of approximately $110 million in fiscal year (FY) 2024-25, $190 million in FY 2025-26, and $190 million in FY 2026-27 by disallowing the MID on second homes. By increasing PIT revenue, this bill also likely increases Proposition 98 GF spending by approximately 40% of the GF revenue gain (the exact amount depends on the specific amount of the annual Proposition 98 guarantee).

2) GF costs of an unknown, but potentially significant, amount to FTB to annually estimate the revenue gain from the disallowance. FTB would likely need to develop a new form or worksheet to determine the estimate and make accompanying processing and system updates.

3) Likely minor costs to DOF and the SCO to facilitate specified calculations and transfers.

4) GF costs of an unknown amount to the Department of Housing and Community Development (HCD) to administer additional MHP funds. MHP provides low-interest, long-term deferred-payment loans for new construction, rehabilitation, and preservation of permanent and transitional rental housing for lower-income households.

According to the Legislative Analyst's Office, the GF faces a structural deficit in the tens of billions of dollars over the next several fiscal years.

COMMENTS:

1) **Purpose.** The author notes the state's largest housing program is the MID, despite the state's "unprecedented housing affordability crisis." According to the author:

> We invest $3.5 billion a year in individuals who have already purchased homes while over half of our state is made up of renters. In addition, we invest approximately $200 million to subsidize owners with the means to purchase not one, but two homes. In the face of our severe housing crisis and a budget shortfall which has led the Governor to propose eliminating $1.2 billion in housing programs, it is necessary to reevaluate this wasteful tax expenditure and redirect the revenues currently subsidizing those with second homes to address this crisis.

2) **Support and Opposition.** This bill is supported by various housing groups, with Housing California arguing, "Investing this funding into homeownership and housing solutions ensures that those without a home receive one before the state helps subsidize those well-off enough to purchase a second."

   This bill is opposed by real estate and taxpayer groups, led by the California Association of Realtors, which argues, "Many hardworking homeowners have relied on [the MID] to make a major financial decision in the purchase of a qualifying home and enacting this proposal would only exacerbate the effects of federal tax laws enacted under the prior federal Administration."

3) **MID.** In conformity with federal law, as it read on January 1, 2015, the MID under PIT Law allows a taxpayer to deduct the interest on a mortgage that is secured by a qualified home in which the taxpayer has an ownership interest. The state deduction is limited to $1 million or less in mortgages used to buy, build, or improve the home. Under current federal law, the deduction is limited to $750,000 for taxable years beginning after December 31, 2017, and beginning before January 1, 2026, after which the federal MID limit returns to $1 million. This limitation applies to the combined mortgages of the first and second home. The second home may be rented out for part of the year, but the taxpayer must live in the home for part of the year. This bill disallows, for taxable years beginning on or after January 1, 2025, the state MID for second homes, even if the home was purchased years ago, and transfers the revenue gain to support housing and homelessness prevention programs.

4) **Prior Legislation.** AB 946 (Lee), of the 2021-22 Legislative Session, and AB 1905 (Chiu), of the 2019-20 Legislative Session, were similar to this bill. The bills were not heard by the Assembly Revenue and Taxation Committee and Assembly Housing and Community Development Committee, respectively, at the request of the authors.

AB 71 (Chiu), of the 2017-18 Legislative Session, would have disallowed the MID on second homes to fund additional Low-income Housing Tax Credits. AB 71 was ordered to the Assembly Inactive File at the request of the author.

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