

ASSEMBLY BILL 71 (CHIU)

BRING CALIFORNIA HOME ACT

SUMMARY

This bill provides an ongoing state funding source for affordable housing by eliminating the state mortgage interest deduction on vacation homes. This deduction results in a revenue loss to the state of approximately \$300 million annually. The funds saved as a result of eliminating the deduction would then increase the Low Income Housing Tax Credit (LIHTC) program by \$300 million per year. Californians could continue to claim a mortgage interest deduction for a vacation home on their federal taxes.

BACKGROUND

The largest investment the state makes in housing is through the mortgage interest deduction; a deduction that disproportionately benefits those with higher incomes and larger mortgages. In 2012, 77 percent of the benefits of the federal mortgage interest deduction went to homeowners with incomes above \$100,000. According to the Franchise Tax Board, approximately four million Californians claim the deduction resulting in over \$5 billion in revenue loss to the state every year.

In addition to the deduction taxpayers can take on their primary home, they can also deduct interest paid on a vacation home. The estimated impact of the vacation home mortgage interest deduction on the General Fund averages \$300 million every year. Approximately 195,000 Californians claim a mortgage interest deduction on a second, vacation home.

The Low-Income Housing Tax Credit Program (LIHTC) was enacted by Congress in 1986 is one of the only remaining sources of funding available for affordable housing. The LIHTC program provides the market with an incentive to invest in more affordable housing through federal tax credits. The California Tax Credit Allocation Committee was directed to award these credits to developers of qualified projects in the state. Developers sell these credits to investors to raise capital for their projects, reducing the debt that the developer would otherwise have to borrow. As a result, property owners are able to offer lower, more affordable pricing.

In response to the high cost of developing housing in California, in 1987 the Legislature authorized a state low-income housing tax credit program. Existing law limits the total amount of low-income housing tax credits the state may allocate at \$70 million per year. However, due to increased demand for housing

development, the tax credit program has been oversubscribed – in 2014 only 49 percent of applicants were awarded credits – leaving many high quality developments without a secure source of funding.

In addition, there is an untapped federal low-income housing tax credit that the state can still access—the 4% Federal Tax Credit. These 4% federal credits are unlimited and remain unused by the state. This is largely due to the fact that the 4% credits require additional state resources to make the development viable – additional state LIHTC funds will allow the state to tap into these resources.

THE PROBLEM

Virtually no low-income Californians, who make up 38 percent of the state’s population, can afford their local housing costs. Nearly 70 percent of low-income and very-low income households spend more than 50 percent of their income on housing costs.

State investment in affordable housing for lower income families has been drastically reduced in the last five years. Voter-approved bonds to fund construction of affordable housing have been exhausted; Proposition 46 of 2002 and Proposition 1C of 2006 together had provided \$4.95 billion for affordable housing. Along with the elimination of redevelopment agencies, our state’s funding of affordable housing has dropped by \$1.7 billion each year.

THE SOLUTION

By eliminating the vacation home mortgage interest deduction and simultaneously increasing the annual state tax credit allocation amounts to \$300 million, California could leverage \$1 billion dollars in new federal resources and create more than 3,000 affordable homes each year for low-income Californians and 7,000 new jobs.

SUPPORT

California Housing Consortium (co-sponsor)
Housing California (co-sponsor)
California Housing Partnership (co-sponsor)

FOR MORE INFORMATION

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