



# AB 946 – Mortgage Interest Deduction

## Assemblymember Alex Lee

### THIS BILL

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AB 946 would repeal California's Mortgage Interest Deduction (MID) on second homes and re-allocate \$230 million annually to provide additional funds to homebuyer assistance programs like the California Housing Finance Agency's MyHome Assistance Program.

### PROBLEM

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The homeownership rate for Californians is 53.8%, the second lowest in the nation. The figures are even worse when broken down by race with only 34.5% of Black people and 41.9% of Latinos as homeowners. Many underserved communities lack access to homeownership.

According to California's Franchise Tax Board, approximately 175,000 Californians benefit from second home MID. The MID subsidy on second homes [costs taxpayers \\$230 million annually](#). If the MID for second homes are discontinued, wealthier-than-average Californians would owe about \$1,000 in taxes annually. State funds are being used to subsidize the second homes while most Californians struggle to purchase their first home.

### BACKGROUND

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The mortgage interest deduction was federally instituted in 1913. During this time, owning property was less common, and most people who purchased homes paid upfront rather than taking out a mortgage. This broad tax subsidy reduced the upfront cost of housing.

A few decades later when homeownership expanded to middle-class suburbs, the mortgage interest deduction was adopted at the state level hoping it would increase homeownership. However, state tax forms do not differentiate between primary and secondary

residences for a mortgage interest deduction. This has led to vacation homes being subsidized by the state budget.

### SOLUTION

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AB 946 only affects .4% of Californians (175,000 people) who currently write off mortgage interest on vacation homes. This bill would redirect funds used to subsidize second homes to California Housing Finance Agency's MyHome Assistance Program, and other programs that support low-to-moderate income homeownership. The \$230 million could be used to create approximately 23,000 first-time homebuyers. This fund would give our teachers, nurses, first responders, and others a chance to buy a home in the communities they serve. People who rent out their second home and use it as a residence for at least 14 days, or occupy the unit for 10% of the number of days it is rented out, are not impacted by this change because they do not currently qualify for the mortgage interest deduction on a second home. A repeal of MID for second homes would benefit first time homebuyers and businesses that focus on building homes for working families. This includes small builders, local architects, construction workers, and realtors.

Lastly, AB 946 would help create better homeowner data. The bill would require state tax forms to clearly identify and split a person's primary residence and secondary residence by 2024.

### SUPPORT

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The Greenlining Institute (Cosponsor)  
California YIMBY (Cosponsor)  
California Community Builders (Cosponsor)  
Asian Business Association of Silicon Valley (Cosponsor)  
LISC San Diego (Cosponsor)