ASSEMBLY BILL No. 1905

Introduced by Assembly Member Chiu
(Coauthor: Assembly Member Wicks)

January 8, 2020

An act to add Section 17226 to the Revenue and Taxation Code, and to add Chapter 8 (commencing with Section 8270) to Division 8 of the Welfare and Institutions Code, relating to homelessness, declaring the urgency thereof, to take effect immediately.

legislative counsel's digest

AB 1905, as introduced, Chiu. Housing and Homeless Response Fund: personal income taxation: mortgage interest deduction.

Existing law requires the Governor to create the Homeless Coordinating and Financing Council and requires the council to, among other things, identify and seek funding opportunities for state entities that have programs to end homelessness.

The Personal Income Tax Law allows various deductions in computing the income that is subject to the taxes imposed by that law, including, in modified conformity with federal income tax laws, a deduction for a limited amount of interest paid on acquisition indebtedness, as defined, with respect to a qualified residence of the taxpayer. Existing law limits the aggregate amount treated as acquisition indebtedness for these purposes to $1,000,000, or $500,000 in the case of a married individual filing a separate return. Existing law specifies for these purposes that a qualified residence includes the taxpayer's principal residence and one other residence selected by the taxpayer, as provided.

This bill, for taxable years beginning on or after January 1, 2020, and with respect to acquisition indebtedness initially incurred by a taxpayer on or after January 1, 2018, would reduce the above-described limit on the aggregate amount treated as acquisition indebtedness from $1,000,000, or $500,000 in the case of a married individual filing a separate return, to $750,000 and $375,000, respectively. The bill, for taxable years beginning on or after January 1, 2020, would also disallow the deduction of acquisition indebtedness with respect to a qualified residence of a taxpayer other than the principal residence.

This bill would require the Franchise Tax Board, in consultation with the Department of Finance, to estimate the amount of additional revenue resulting from the above-described modifications made with respect to the calculation of taxable income under the Personal Income Tax Law by this bill and to notify the Controller of that amount, as provided. The bill would require the Controller, upon receipt of these notifications, to transfer an amount equal to the amount determined by the Franchise Tax Board from the General Fund to the Housing and Homeless Response Fund, which the bill would establish. Upon appropriation, the bill would require that moneys in the fund be used to finance immediate and long-term solutions to homelessness informed by a best-practices framework focused on moving homeless individuals and families into permanent housing and supporting the efforts of those individuals and families to maintain their permanent housing.

This bill would declare that it is to take effect immediately as an urgency statute.

Vote: 2⁄3. Appropriation: no. Fiscal committee: yes. State-mandated local program: no.

The people of the State of California do enact as follows:

SECTION 1. The Legislature finds and declares all of the following:

(a) As of January 2019, California had an estimated 151,278 people experiencing homelessness on any given day, as reported by Continuum of Care to the United States Department of Housing and Urban Development. This is the highest number since 2007, and represents at 17 percent increase since 2018.

(b) The vast majority of homeless Californians, which is about 71 percent and the highest rate in the nation, were unsheltered, meaning that they were living in streets, parks, or other locations not meant for human habitation. In 2018, among homeless veterans, California had the nation’s highest share that are unsheltered (67 percent), and among homeless youth, the share that are unsheltered (80 percent) ranked second highest.

(c) Despite significant one-time funding from the state and ongoing local funding, in some communities, the number of people experiencing homelessness continues to grow.

(d) As local communities work to house the unsheltered, more people are falling into homelessness. Larger urban areas with high numbers of people experiencing homelessness have reported that more people are falling into homelessness than they are able to house.

(e) In the City of Oakland, for every one person they are able to house, two more are falling into homelessness.

(f) In the County of Los Angeles, despite housing 20,000 homeless people in 2018, for every 133 people housed, 150 fall into homelessness per day.

(g) In the City and County of San Francisco, for every one person they are able to house, three more fall into homelessness.

(h) A growing percentage of the state's homeless population are seniors who are experiencing homelessness for the first time. Seniors who are on fixed incomes and who are severely rent burdened have no potential for additional income.

(i) Once seniors are homeless, their health quickly deteriorates and they use emergency services at a higher rate and face high mortality rates.

(j) Fifty percent of seniors who are homeless become homeless after the age of 50.

(k) African Americans are disproportionately found on California's streets. Roughly 30 percent of the state's unhoused population is Black.

(*l*) While comprehensive statewide data is lacking, local surveys indicate that people living on the streets are typically from the surrounding neighborhood. For example, 70 percent of the people experience homelessness in the City and County of San Francisco were housed somewhere in the city where they lost housing, while only 8 percent came from out-of-state. In addition, three-quarters of the homeless population of the County of Los Angeles lived in the region before becoming homeless.

(m) About 1,300,000 California renters are considered "extremely low income," making less than $25,000 per year.

(n) In many parts of the state, many lower income residents are severely cost burdened, paying over 50 percent of their income toward housing costs. One small financial setback can push these individuals and families into homelessness.

(o) Long-term investment in affordable housing and supportive housing with services are necessary to respond to homelessness.

(p) Communities around the state have begun to focus on prevention and diversion programs that keep individuals and families from falling into homelessness. Prevention programs are most effective when they are efficient and effective and target those individuals and families that are risk of homelessness versus displacement.

(q) The state foregoes approximately $250,000,000 each year in General Fund dollars on the mortgage interest deduction on vacation homes, which benefits about 175,000 taxpayers.

(r) In 2017, the federal government reduced the amount of interest a taxpayer can deduct on a mortgage from $1,000,000 to $750,000. The cost savings were used to fund corporate tax breaks for the rich.

(s) In 2016, taxpayers claimed $54,000,000,000 in mortgage interest deductions, lowering their taxes by about $4,200,000,000.

(t) The state needs an ongoing, stable source of funding to address the homelessness crisis in a focused in efficient way that supports evidence-based approaches at the local level.

SEC. 2. Section 17226 is added to the Revenue and Taxation Code, to read:

17226. (a) For taxable years beginning on or after January 1, 2020, the following shall apply:

(1) (A) Subject to subparagraph (B), Section 163(h)(3)(B)(ii) of the Internal Revenue Code, relating to $1,000,000 Limitation, is modified by substituting “$750,000 ($375,000” for “$1,000,000 ($500,000.”

(B) This paragraph shall only apply with respect to acquisition indebtedness initially incurred by a taxpayer on or after January 1, 2018.

(2) Sections 163(h)(4)(A)(i)(II) and 163(h)(4)(A)(ii)(II) of the Internal Revenue Code, relating to Qualified residence, shall not apply.

(b) (1) No later than June 1, 2021, the Franchise Tax Board, in consultation with the Department of Finance, shall estimate the amount of revenue that would have resulted if the modifications made with respect to the calculation of taxable income by this section had applied to taxable years beginning on or after January 1, 2019, and before January 1, 2020, and notify the Controller of that amount.

(2) No later than June 1, 2022, and annually thereafter, the Franchise Tax Board, in consultation with the Department of Finance, shall estimate the amount of additional revenue resulting from the modifications made with respect to the calculation of taxable income by this section and notify the Controller of that amount.

SEC. 3. Chapter 8 (commencing with Section 8270) is added to Division 8 of the Welfare and Institutions Code, to read:

Chapter 8. Housing and Homeless Response Fund

8270. (a) The Housing and Homeless Response Fund is established in the State Treasury.

(b) Upon appropriation, moneys in the fund shall be used to finance immediate and long-term solutions to homelessness informed by a best-practices framework focused on moving homeless individuals and families into permanent housing and supporting the efforts of those individuals and families to maintain their permanent housing.

(c) Upon receiving the notifications from the Franchise Tax Board pursuant to paragraphs (1) and (2) of subdivision (b) of Section 17226 of the Revenue and Taxation Code, the Controller shall transfer an amount, equal to the amount estimated by the Franchise Tax Board in those notifications, from the General Fund to the Housing and Homeless Response Fund.

SEC. 4. This act is an urgency statute necessary for the immediate preservation of the public peace, health, or safety within the meaning of Article IV of the California Constitution and shall go into immediate effect. The facts constituting the necessity are:

In order to provide sufficient revenue to help resolve this state's severe homelessness crisis as quickly as possible, it is necessary that this act take effect immediately.

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