Orange County Taxpayers Association
P.O. Box 5881, Orange, CA 92863

April 24, 2024

The Honorable Buffy Wicks
California State Assembly
Chair, Assembly Appropriations Committee
1021 O Street, Suite 8220
Sacramento, CA 95814

RE: AB 1932 (Ward) Elimination of Mortgage Interest Deduction – OPPOSE

Dear Chair Wicks:

The Orange County Taxpayers Association is dedicated to making tax policy equitable, understandable, cost-effective and good for the economy. OC Tax is the only regional association dedicated to representing taxpayers on government taxation and spending policies, such as those outlined in AB 1932. We must OPPOSE this bill as we believe it creates an unnecessary burden for taxpayers. California residents are already under a heavy financial burden due to local, state and federal taxation, and at a time when the average family is struggling with the high cost of living, now is not the time to eliminate their tax deductions.

We join the California Association of REALTORS® and others in outlining how this tax increase unfairly impacts California homeowners who have scrimped and saved for years and are now eligible to use this provision to better the lives of their families. Many hardworking homeowners have relied on this provision in the law 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, which has hurt California families.

CALIFORNIA HOMEOWNERS HAVE RELIED ON AND BENEFIT FROM THIS PROVISION

California allows deductions for home mortgage interest on mortgages up to $1 million. This is the total amount allowed to a California taxpayer whether it is one or two homes. In many cases, the mortgage on a first home can be $1 million or more in many cities throughout Orange County, not allowing for any further deductions on future properties.

Further illustrating this point, the median home price in the state for February 2024 crept up 2.2 percent from January 2024, coming in at $806,490. Additionally, the median price of a home in Orange County was $1.40 million last month, up 12% since last year. The data suggests that as supply for homes continues to be constrained, any revenue resulting from this legislation would likely dwindle.

The narrative that these second homes are only owned by high-net-worth individuals is not accurate. Under the IRS definition of what property is entitled to the deduction, "a home includes a house, condominium, cooperative, mobile home, house trailer, boat, or similar property that has sleeping, cooking, and toilet facilities." Further, many of these homes are owned by hard- working families of modest means that have had to save for years, if not decades, to achieve the dream of homeownership.

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The increase in hybrid work and the passage of AB 1033 (Ting) last year, which now allows for the individual sale of accessory dwelling units, has prompted many California families to consider purchasing an ADU as a second 'home.' For many, those ADU's may be closer to the city, to their work location, or perhaps it is for is a relative to live there, which allows the homeowner to reside there as well in instances where the homeowner is caring for an aging relative or a family member suffering from an illness. <u>Again, as laws make available smaller units to purchase, this practice is likely to increase.</u> It is unfair to punish hardworking families just because the mortgage on their first home is too modest to take full advantage of the $1 million cap on the mortgage interest deduction.

Rather than the stated goal of targeting high-net-worth-individuals, the net effect of this measure will be to punish those whose home mortgage is less than the $1 million cap, by disincentivizing them from making any future purchases.

EXACERBATES PROBLEMS CREATED UNDER 2017 TAX CUTS & JOBS ACT

The Tax Cuts and Jobs Act of 2017 (TCJA), which was signed into law by former President Trump, **harmed homeowners in high-cost states like California**, New York, and New Jersey. It reduced the federal cap on the mortgage interest deduction to $750,000 and capped the deduction of local and state income tax at $10,000. These changes, which took effect in 2018, left a lasting negative impact on those who own homes in high-cost states like California. This change particularly impacted dual-income families by imposing a marriage penalty on joint filers.

For these reasons, we respectfully ask for your "NO" vote on AB 1932.

Sincerely,

Sara Catalán

Sara Catalan

On behalf of the Orange County Taxpayers Association