Franchise Tax Board

ANALYSIS OF ORIGINAL BILL

Author:	Alquist	Analyst:	LuAnna Hass	Bill Number:	AB 265
Related Bills:	See Legislative History	Telephone:	845-7478	Introduced Date:	02-16-2001
		Attorney:	Patrick Kusiak	Sponsor:	

SUBJECT: Exemption/Income of Low-Income Seniors

SUMMARY

This bill would exempt senior taxpayers who meet specific age and income criteria from personal income taxation.

PURPOSE OF THE BILL

It appears the purpose of this bill is to allow as many seniors as possible to receive an additional tax benefit.

EFFECTIVE/OPERATIVE DATE

As a tax levy, this bill would be effective immediately upon enactment and operative for taxable years beginning on or after January 1, 2001.

POSITION

Pending.

Summary of Suggested Amendments

Amendment 1 would make a minor technical change.

ANALYSIS

FEDERAL/STATE LAW

Existing federal law provides various personal and dependent exemptions that are subject to income limitations. These exemptions are treated as deductions from adjusted gross income (AGI). These exemption deduction amounts are indexed annually for inflation and are $2,800 for the 2000 taxable year. Exemption deductions begin to phase out at federal AGI levels in excess of the amounts listed below:

Board Position:			Department Director	Date
____ S	____ NA	____ NP	Alan Hunter for GHG	05/02/01
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Filing Status	AGI (2000)
Married Filing Separate	$96,700
Single	$128,950
Head of Household	$161,150
Married Filing Joint/Qualifying widow(er)	$193,400

The exemption amount is reduced by two percent for every $2,500 ($1,250 for married filing a separate return) that the taxpayers Federal AGI exceeds the above threshold amounts, not to exceed 100%.

Federal law does not provide an additional exemption for senior taxpayers. However, federal law does provide an additional standard deduction for individuals age 65 and older.

Existing state law imposes six different tax rates ranging from 1% to 9.3%. Each tax rate applies to a different level of income, also known as a “tax bracket.” State law also provides for an alternative minimum tax (AMT). The AMT was established to ensure that no taxpayers with substantial economic income avoid all tax liability by using exclusions, deductions, and credits. The personal income AMT rate is 7% and the corporate AMT rate is 6.65%.

Gross income includes all income from whatever source derived, including compensation, business income, gains from property, dividends, rents, interest, and royalties, unless specifically exempt. Adjusted gross income (AGI) for California purposes excludes social security benefits, unemployment compensation, California lottery winnings, and interest on federal or California obligations.

Taxpayers that are 65 years of age or older are required to file a state income tax return if they meet one of the following requirements:

1. Single or head of household with California AGI in excess of $12,792, or gross income of $15,052.
2. Married filing a joint return where both spouses are 65 or older with a combined California AGI of $25,584, or gross income of $30,105.
3. Married filing a separate return where one spouse is 65 or older with California AGI of $21,834, or gross income of $26,355.
4. Qualifying widower with California AGI of $18,667, or gross income of $20,927.

These amounts apply for the 2000 taxable year and are indexed annually for inflation.

Taxpayers who are 65 years of age or older may claim the senior exemption credit in addition to any other personal exemption credit they are qualified to receive. Low-income taxpayers that are 65 years of age or older may also qualify for the senior head of household credit. All personal exemption credits (other than the dependent exemption credit) for the 2000 taxable year are $75 each.

The Franchise Tax Board (FTB) is required by law to index the tax brackets, the exemption credits, the standard deduction, and the AMT personal exemption deduction each year based on the inflation rate.

A nonresident with income that is derived from or attributable to sources within this state is subject to an income tax on that amount. "Income from sources within this state" is defined by regulation as income from tangible or intangible property located or having a situs in this state and income from any activity carried on in this state, regardless of whether carried on in intrastate, interstate, or foreign commerce. For purposes of determining the tax of a nonresident or part-year resident, California adjusted gross income is defined as all items of adjusted gross income for any part of the year a taxpayer is a resident of the state and those items of adjusted gross income derived from sources within this state for any part of the year the taxpayer is a nonresident.

<u>THIS BILL</u>

This bill would allow taxpayers who are at least 65 years of age by December 31st to be exempt from both regular income tax and the AMT if their California AGI is:

- $25,000 or less for a single taxpayer or a married individual filing a separate return, or
- $50,000 or less for a head of a household or a married couple filing a joint return (the exemption is available for married couples so long as one of the spouses is at least 65 years of age).

<u>IMPLEMENTATION CONSIDERATIONS</u>

Implementation of this bill would not significantly impact the department's programs and operations.

<u>TECHNICAL CONSIDERATIONS</u>

This bill refers to California AGI as a measure of income for purposes of this exemption. Amendment 1 is provided to clarify the reference to AGI to mean AGI for California purposes by referencing appropriate provisions of the California Revenue and Taxation Code.

LEGISLATIVE HISTORY

AB 1618 (Morrissey, 1997/1998) would have provided a $20,000 deduction from gross income for residents 65 years and older whose AGI did not exceed a specified amount. This bill failed passage in the Assembly Revenue and Taxation Committee.

OTHER STATES' INFORMATION

No other state allows an exemption equivalent to the one proposed by this bill. Most states allow an additional personal exemption for seniors similar to California law.

FISCAL IMPACT

This bill would not significantly impact the department's costs.

ECONOMIC IMPACT

<u>Revenue Estimate</u>

Based on the discussion below, the revenue loss from this bill is as follows:

Estimated Revenue Impact For Low-Income Senior Exclusion For Taxable Years Beginning on or After January 1, 2001 Assumed Enactment After June 30, 2001 (In Millions) Fiscal Year Impact		
2001-02	2002-03	2003-04
-$117	-$77	-$69

This analysis does not consider the possible changes in employment, personal income, or gross state product that could result from this proposal.

Revenue Discussion

The impact of this proposal would depend upon the number of taxpayers that would no longer be taxable and the average tax liability that would be eliminated.

The above estimate were based on the department's latest personal income tax model for tax year 2001, approximately 360,000 tax filers would benefit from tax reductions as a result of this proposal. Revenue losses would decline in 2002 and thereafter, since no provision was made to index the income limitations.

ARGUMENTS/POLICY CONCERNS

California law, unlike federal law, excludes social security benefits from income subject to tax. Therefore, it may be argued that seniors already receive a California tax benefit.

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FRANCHISE TAX BOARD'S
PROPOSED AMENDMENTS TO AB 265
As Introduced February 16, 2001

AMENDMENT 1

On page 2, strikeout line 3, and insert:

taxable year, with adjusted gross income computed in accordance with Section 17072, of twenty-five

AMENDMENT 2

On page 2, strikeout line 11, and insert:

year, with adjusted gross income computed in accordance with Section 17072, of fifty thousand