

SUMMARY ANALYSIS OF AMENDED BILL

Franchise Tax Board

Author: McClintock Analyst: Darrine Distefano Bill Number: SB 48

Related Bills: See Prior Analysis Telephone: 845-6458 Amended Date: 03-05-2001

Attorney: Patrick Kusiak Sponsor: _____

SUBJECT: Renter Credit/Increases Credit to \$532 & \$266 & Deletes Adjusted Gross Income Limitation

- DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended _____.
- AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.
- AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as introduced/amended _____.
- FURTHER AMENDMENTS NECESSARY.
- DEPARTMENT POSITION CHANGED TO _____.
- REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED
December 13, 2000 STILL APPLIES.
- OTHER - See comments below.

SUMMARY

This bill would increase the renters' credit by raising the amount to \$266 or \$532, depending on filing status. This bill also would delete the income limitation, so that all taxpayers, regardless of their income level, can claim the credit.

This analysis will not address the bills provisions regarding the property tax exemption as it does not impact the department's programs or operations. However, these provisions were considered in assessing the revenue impact of the bill.

SUMMARY OF AMENDMENT

The February 27, 2001, amendment changed the credit amounts to \$532 for taxpayers using the filing statuses of married filing joint, head of household or surviving spouse, and \$266 for individuals.

The March 5, 2001, amendment added several co-authors and made a technical change to the property tax exemption section.

Except for the change to revenue impact and an unresolved technical consideration, the remainder of the department's analysis of the bill as introduced on December 13, 2000, still applies.

<p>Board Position:</p> <table style="width: 100%; border: none;"> <tr> <td style="width: 33%;"><input type="checkbox"/> S</td> <td style="width: 33%;"><input type="checkbox"/> NA</td> <td style="width: 33%;"><input type="checkbox"/> NP</td> </tr> <tr> <td><input type="checkbox"/> SA</td> <td><input type="checkbox"/> O</td> <td><input type="checkbox"/> NAR</td> </tr> <tr> <td><input type="checkbox"/> N</td> <td><input type="checkbox"/> OUA</td> <td><input checked="" type="checkbox"/> PENDING</td> </tr> </table>	<input type="checkbox"/> S	<input type="checkbox"/> NA	<input type="checkbox"/> NP	<input type="checkbox"/> SA	<input type="checkbox"/> O	<input type="checkbox"/> NAR	<input type="checkbox"/> N	<input type="checkbox"/> OUA	<input checked="" type="checkbox"/> PENDING	<table style="width: 100%; border: none;"> <tr> <td style="width: 70%;">Legislative Director</td> <td style="width: 30%;">Date</td> </tr> <tr> <td>Brian Putler</td> <td>04/03/01</td> </tr> </table>	Legislative Director	Date	Brian Putler	04/03/01
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Brian Putler	04/03/01													

POSITION

Pending.

TECHNICAL CONSIDERATIONS

Amendment 1 would clarify a cross-reference within the bill.

OTHER STATES' INFORMATION

Since the department's original analysis, two more states were identified that offer a type of renter's credit.

Michigan provides a 20% property tax credit for rent paid on an apartment, mobile home or a lot in a mobile home park.

Massachusetts allows the taxpayer a deduction of 50% of the rent paid to a landlord.

ECONOMIC IMPACT

The February 27, 2001, amendment would result in revenue losses as shown in the following table:

Fiscal Year Cash Flow Enactment Assumed After June 30, 2001 \$ Millions			
	2001-02	2002-03	2003-04
Renter's Credit	-\$850	-\$829	-\$851
Homeowner's Exemption*	0	\$26	\$53
Total Impact	-\$850	-\$803	-\$798

* Reflects additional state income taxes paid by itemizers of home property taxes.

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

In addition, this revenue takes into account the new departmental data and Consumer Price Index (CPI) projections.

Revenue Discussion

Renter's Credit:

The revenue impact for this bill will be determined by new and additional credit claims due to the larger credit amount and removal of the adjusted gross income cap, which can be applied against available tax liabilities.

This estimate was developed based on updated departmental data and prior estimates for changing the renter's credit and adjusted by current CPI projections from the Department of Finance. This estimate takes into account current law credits claimed.

Homeowner's Exemption

The revenue impact for this bill will be determined by the number of homeowners qualifying for the increase in exemption amount, the reduced amount of property taxes deducted on the income tax return and the applicable marginal tax rate.

This estimate was developed in the following steps. First, based on current tax return data and CPI projections, it is projected that approximately 3.9 million taxpayers with taxable returns filed would itemize their home property taxes for tax year 2002. Second, based on the Board of Equalization, the average tax rate for increasing the exemption credit to \$25,000, an \$18,000 increase, would be 1.067%. Applying this tax rate to the increased exemption amount (\$18,000) would generate approximately \$192 less in itemized deductions claimed ($18,000 \times 1.067$), or total deductions of approximately \$749 million ($\192×3.9 million). Third, assuming an average marginal tax rate of 7%, the total revenue gain under the Personal Income Tax (PIT) Law would be approximately \$53 million attributed to the full 2002-3 property tax year. The estimate above of \$26 million for 2002-3 accounts for the first installment only of the 2002-3 property tax payment cycle.

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FRANCHISE TAX BOARD'S
PROPOSED AMENDMENTS TO SB 48
As Amended March 5, 2001

AMENDMENT 1

On page 6, line 14, after "paragraph (2)" insert:
of this subdivision