Franchise Tax Board

SUMMARY ANALYSIS OF AMENDED BILL

Author: Dutton, et. al Analyst: Darrine Distefano Bill Number: AB 82

Related Bills: See Prior Analysis Telephone: 845-6458 Amended Date: January 5, 2004

Attorney: Patrick Kusiak Sponsor: ______

SUBJECT: Renter Credit/Increase Credit to $185 and $370

____	DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended ______________________.
X	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 ______________________.
X	REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED January 6, 2003 STILL APPLIES.
____	OTHER - See comments below.

SUMMARY

This bill would increase the amount of the existing renters' credit and would delete the existing income eligibility limitation for the credit.

This bill would also increase the amount of the existing homeowner's property tax exemption. Although Franchise Tax Board (FTB) does not administer this exemption within the Revenue & Taxation Code, these provisions were considered in assessing the revenue impact of the bill.

SUMMARY OF AMENDMENTS

This bill, as amended January 5, 2004, would increase the amount of the homeowner's property tax exemption from $7,000 to $32,000 of the full value of the dwelling. Beginning with the property tax lien date in 2005 and after, the State Board of Equalization would be required to index the revised amount for inflation.

Also, for each taxable year beginning on or after January 1, 2005, FTB would be required to index the revised renter's credit amounts for inflation.

A revised revenue estimate is included below. The remainder of the department's analysis of the bill as introduced January 2, 2003, still applies.

POSITION

Pending.

Board Position:			Legislative Director	Date
______ S	______ NA	______ NP	Brian Putler	1/8/03
______ SA	______ O	______ NAR		
______ N	______ OUA	X PENDING		

ECONOMIC IMPACT

Revenue Estimate

Revenue Impact Assumed Enactment After June 30, 2004 ($ Millions)			
Fiscal Year	2004-05	2005-06	2006-07
Nonrefundable renters' credit	-530	-530	-550
Homeowners' exemption	0	+45	+90
Total Impact	-530	-485	-460

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

Revenue Discussion

Renters' Credit – The revenue impact for this bill will be determined by new and additional credit claims due to the larger credit amount and the removal of the adjusted gross income cap. It is projected that for the 2004 tax year there would be 1.45 million additional renters claiming the new renters' credit. The reduction in tax liability for 2004 would be $505 million, growing 5% (1.05) annually thereafter. The initial fiscal year loss includes the $505 million plus 5% of the 2005 liability impact due to reduced estimated tax payments for some higher income renters. (505 x 1.05 = 530)

Homeowners' Exemption – Existing federal and state laws allow an individual to deduct certain expenses, such as property taxes, as itemized deductions. If the homeowner's property tax exemption amount were increased, the amount of property tax paid would decrease, which would equate to a decrease in the amount of itemized deduction for property tax paid a taxpayer can report on the personal income tax return. This analysis assumes that the first lien date after enactment of the bill would be March 2005.

Based on current tax return data and Consumer Price Index projections, it is estimated that 4.3 million taxpayers filing taxable returns will itemize their home property taxes for the 2005 tax year. The Board of Equalization estimates that the average property tax rate will be 1.09%. Applying this tax rate to the increased exemption amount would generate an additional property tax savings of $275 (32,000 – 7,000 = 25,000 x 1.09= 272.50 (rounded to up $275). The decrease in itemized deductions for homeowners would be approximately $1.2 billion for a total income tax increase approaching $90 million.

The estimates for the exemption increases assume an average marginal tax rate of 7%(.072) (275 x .072 = 19.8 (rounded to 20); 20 x 4.3 million = 86 million (rounded up to $90 million). The smaller gains under the PITL in 2005-06 reflect only the first installment of the 2005-06 property tax cycle, plus a minor gain for the second installment due in 2006.

LEGISLATIVE STAFF CONTACT

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