Franchise Tax Board

ANALYSIS OF ORIGINAL BILL

Author:	Dutton	Analyst:	Darrine Distefano	Bill Number:	AB 82
Related Bills:	See Legislative History	Telephone:	845-6458	Introduced Date:	01-06-2003
		Attorney:	Patrick Kusiak	Sponsor:	

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

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 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.

PURPOSE OF THE BILL

According to the author's staff, the purpose of this bill is to assist taxpayers' during this economic crisis by increasing the credit amount and allowing the credit to be available to all taxpayers.

EFFECTIVE/OPERATIVE DATE

As a tax levy, this bill would be effective upon enactment and operative for taxable years beginning on or after January 1, 2003.

POSITION

Pending.

ANALYSIS

FEDERAL/STATE LAW

Current state law allows qualifying renters under specified adjusted gross income (AGI) limits a nonrefundable credit in the following amounts:

- $60 for taxpayers filing single or married filing separate with an AGI of $28,429 or less,
- $120 for taxpayers filing married filing joint, head of household, or surviving spouse with an AGI of $56,858 or less.

Board Position:			Department Director	Date
_______ S	_______ NA	_______ NP	Gerald H. Goldberg	01/30/03
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The amount of the credit is not related to the amount of rent paid.

The refundable renter's credit was suspended for the 1993 through 1997 tax years, but was reinstated as a nonrefundable credit effective January 1, 1998, for 1998 and later taxable years.

Current state law defines a "qualified renter" as an individual who: (1) is a California resident and (2) rented and occupied California premises constituting his or her principal place of residence for at least 50% of the taxable year.

Under current state tax law a "resident" is statutorily defined as: (1) every individual who is in this state for other than a temporary or transitory purpose and (2) every individual domiciled in this state who is outside the state for a temporary or transitory purpose.

Under current state law, any qualified renter who is a nonresident for a portion of the taxable year is allowed 1/12 of the renter’s credit for each full month that the individual resided in the state for the taxable year.

Existing federal and state laws allow individuals to deduct certain expenses, including property taxes, as itemized deductions.

State law authorizes FTB to administer several non-tax programs, one of which is the Homeowner’s and Renter’s Assistance (HRA) program.

For HRA claimants, existing state law provides partial reimbursement of the previous fiscal year's property taxes on a personal residence paid directly by a homeowner and indirectly by a renter. Relief for homeowners and renters is based on a percentage of the amount of property tax paid in a given year, less the homeowner’s property tax exemption.

THIS BILL

This bill would increase the amount of renter’s credit to $185 for single or married filing separate taxpayers and $370 for married filing joint, heads of household, and surviving spouse taxpayers. This bill would increase the credit beginning with the 2003 taxable year.

In addition, this bill would delete the AGI limitation for all filing statuses. For each taxable year beginning on or after January 1, 2004, FTB would be required to index the revised credit amounts for inflation.

This bill 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 2004 and after, the State Board of Equalization would be required to index the revised amount for inflation.

IMPLEMENTATION CONSIDERATIONS

Implementing this bill would require some changes to existing tax forms and instructions and information systems, which could be accomplished during the normal annual update.

LEGISLATIVE HISTORY

AB 760 (Statham, Stats. 1993, Ch. 62), AB 2389 (Committee on Ways and Means, Stats. 1994, Ch. 144), SB 1794 (Wright, Stats. 1996, Ch. 192), and AB 1592 (Leonard, Stats. 1997, Ch. 292) all suspended the Renter's Credit.

AB 2797 (Cardoza, Stats. 1998, Ch. 322) reinstated the Renter's Credit as nonrefundable beginning January 1, 1998.

SB 94 (Chesbro, Stats. 1999, Ch. 931) deleted an obsolete provision within the Renter's Credit.

OTHER STATES' INFORMATION

Illinois does not offer a renter's credit to its taxpayers. *Massachusetts* offers taxpayers a 50% rental deduction, up to a maximum amount, for rent paid during the taxable year. *Michigan, Minnesota*, and *New York* offer a type of renter's credit based on household income and property taxes paid.

Florida has no personal income tax; therefore a comparison cannot be made.

FISCAL IMPACT

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

ECONOMIC IMPACT

<u>Revenue Estimate</u>

Revenue Impact Assume Enactment After June 30, 2003 ($ Millions)			
Fiscal Year	2003-04	2004-05	2005-06
Nonrefundable renters' credit	-505	-505	-530
Homeowners' exemption	0	+40	+85
Total Impact	-505	-465	-445

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

<u>Revenue Discussion</u>

Renters' Credit – The revenue impact for this bill was determined by additional credit claims due to the increased credit amounts and the removal of the AGI limitation. It is projected that for the 2003 tax year there will be 1.4 million additional renters claiming the new renters' credit. This figure was derived from the Census 2000 data and the Jarvis-Simon Homeowners' and Renters' Relief Act from March 2002, that eliminated the AGI cap.

Homeowners' Exemption – The income tax impact of this bill results from smaller property tax deductions reported by taxpayers that itemize on personal income tax returns filed. This analysis assumes that the first lien date after enactment of the bill would be March 2004.

Based on current tax return data and Consumer Price Index projections, it is estimated that four million taxpayers filing taxable returns will itemize their home property taxes for the 2004 tax year. The Board of Equalization estimates that the average property tax rate in 2004 will be 1.08%. Applying this tax rate to the increased exemption amount would generate an additional property tax savings of $280. The decrease in itemized deductions for homeowners would be approximately $1.1 billion.

The estimates for the exemption increases assume an average marginal tax rate of 7%. The smaller gains under the Personal Income Tax Law in 2004-05 reflect only the first installment of the 2004-05 property tax cycle, plus a minor gain for the second installment due in 2005.

LEGISLATIVE STAFF CONTACT

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