

ANALYSIS OF ORIGINAL BILL

Franchise Tax Board

Author: Plescica Analyst: Rachel Coco Bill Number: AB 185

Related Bills: See Legislative History Telephone: 845-4328 Introduced Date: January 25, 2005

Attorney: Patrick Kusiak Sponsor: _____

SUBJECT: Homeowner's Property Tax Exemption/Senior Citizens

SUMMARY

This bill would increase the homeowner's property tax exemption for individuals 62 years or older.

PURPOSE OF THE BILL

According to the author's office, the purpose of this bill is to reduce the property tax burden on the elderly.

EFFECTIVE/OPERATIVE DATE

As a tax levy, this bill would be effective immediately upon enactment and operative for assessment years beginning on or after January 1, 2006.

POSITION

Pending.

ANALYSIS

STATE LAW

State law requires a taxpayer that owns real estate not used for business to be assessed a tax on that property at a specified percentage. The county where the property is located generally assesses this tax. The first \$7,000 of the full value of the taxpayer's dwelling is exempt from that property tax.

Current state law also allows an individual who fails to claim the exemption timely to file an affidavit with the assessor for an exemption equal to the lesser of \$5,600 or 80% of the full value of the dwelling.

The Franchise Tax Board (FTB) does not administer the property tax exemption within the Revenue & Taxation Code; however, the exemption impacts the Homeowner's and Renter's Assistance (HRA) program, a non-tax program administered by FTB.

For HRA claimants, existing state law provides partial reimbursement of the previous fiscal year's property taxes on a personal residence. Assistance is based on a percentage of the amount of property tax paid in a given year, less the homeowner's property tax exemption. To be eligible for assistance, claimants must be 62 years of age, blind, or disabled.

Board Position:	Department Director	Date
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<input checked="" type="checkbox"/> PENDING	Gerald H. Goldberg	3/3/05

The California Constitution requires the Legislature to provide increases in benefits to qualified renters, as defined by law, comparable to the average increase in benefits provided under the homeowner's property tax exemption.

THIS BILL

This bill would increase the amount of the homeowner's property tax exemption from \$7,000 of the full value of the dwelling to \$15,000 for individuals 62 years or older. All other homeowners would continue to receive a property tax exemption of \$7,000.

In the event of an untimely filed exemption, this bill would increase the amount of the exemption for those individuals 62 years or older to an amount equal to the lesser of \$12,000 or 80% of the full value of the dwelling. All other homeowners would continue to be granted the lesser of \$5,600 or 80% of the full value of the dwelling.

IMPLEMENTATION CONSIDERATIONS

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

LEGISLATIVE HISTORY

AB 211 (Maze, 2003/04) contained the same language as this bill. AB 211 failed to pass out of the legislature by the constitutional deadline.

AB 82 (Dutton 2003/04) would have increased the amount of the existing homeowner's property tax exemption for all taxpayers as well as the amount of the existing nonrefundable renters' credit. AB 82 failed to pass out of the legislature by the constitutional deadline.

OTHER STATES' INFORMATION

The states surveyed include *Florida, Illinois, Massachusetts, Michigan, Minnesota, and New York*. These states were selected due to their similarities to California's economy, business entity types, and tax laws.

Illinois provides a Circuit Breaker Grant to refund money to seniors citizens aged 65 and older that paid property taxes, mobile home taxes, rent, or nursing charges. *Illinois* also provides a tax credit for property taxes paid on a principal residence, mobile home, and property purchased for all residents.

Massachusetts provides a credit to a tenant or owner of residential property who is 65 years or older. If the real estate tax payment or the rent that constitutes the real estate tax payment exceeds 10% of the taxpayer's total income, the amount of the credit provided would equal that tax payment.

Michigan provides a credit to senior citizens 65 years or older for property taxes or rent paid on a homestead. *Minnesota* allows senior citizens 65 years or older to postpone or defer payment on a portion of their homestead property taxes. *New York* provides a credit to senior citizens 65 years or older for part of the real property taxes or rent 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

Revenue Estimate

This bill would result in the following revenue gains:

Revenue Impact of AB 185 Effective For Assessment Year 2006 Enactment Assumed After June 2005 (\$ Millions)		
2005-06	2006-07	2007-08
No impact	+\$2.5	+\$2.5

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

Revenue gains are the result of reduced itemized deductions for real estate taxes. Increases in the homeowner's property tax exemption reduce the amount of real estate taxes paid; thus reducing the amount of real estate tax deducted on income tax returns.

Revenue Discussion

Under this bill, the homeowner's property tax exemption would increase by \$8,000 for individuals 62 years or older. This increase would result in a property tax reduction of \$88 (\$8,000 x 1.095%, average property tax rate). The estimate above was based on the amount of the property tax reduction multiplied by the number of eligible taxpayers and an average marginal tax rate (\$88 x 470,000 eligible taxpayers x 6% = \$2.5 million).

Since the first property tax installment for the 2006 assessment year would not occur until the 2006-07 fiscal year, there would be no revenue impact in fiscal year 2005-06. The full revenue impact would occur in 2006-07 when both property tax installments would be paid.

ARGUMENTS/POLICY CONCERNS

By reducing the amount of property tax paid by individuals 62 or older, this bill would indirectly impact homeowners claiming assistance under the HRA program. As a result, some homeowners' assistance amount may be reduced due to less property tax being paid. For example, an HRA claimant who would generally receive assistance in the amount of \$404.60 would, under this bill, receive \$353.43, a difference of \$51.17.

LEGISLATIVE STAFF CONTACT

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