

# ANALYSIS OF ORIGINAL BILL

## Franchise Tax Board

Author: Walters Analyst: Rachel Coco Bill Number: AB 1922  
Related Bills: See Legislative History Telephone: 845-4328 Introduced Date: January 31, 2006  
Attorney: Patrick Kusiak Sponsor: \_\_\_\_\_

**SUBJECT:** Homeowner's Property Tax Exemption Increase/Renters Credit/FTB Adjust Credit Amount For Inflation

### SUMMARY

This bill would increase the homeowner's property tax exemption amount and require the Franchise Tax Board (FTB) annually to adjust the amount of the nonrefundable renter's credit for inflation.

### PURPOSE OF THE BILL

According to the author's office, the purpose of this bill is to reduce the property tax burden on individuals entering the housing market.

### EFFECTIVE/OPERATIVE DATE

As a tax levy, this bill would be effective and operative immediately upon enactment. The bill specifies that the provision requiring FTB to adjust the amount of the nonrefundable renter's credit annually would be operative for taxable years beginning on and after January 1, 2007.

### POSITION

Pending.

### ANALYSIS

#### STATE LAW

Current 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 allows a nonrefundable income tax credit for qualified renters in the following amounts:

- ❖ \$60 for taxpayers filing single or married filing separate with an adjusted gross income (AGI) of \$30,794 or less, and
- ❖ \$120 for taxpayers filing married filing joint, head of household, or surviving spouse with an AGI of \$61,588 or less.

The California Constitution requires the Legislature to provide increases in benefits to qualified renters that are comparable to the average increase in benefits provided under the homeowner's property tax exemption.

#### Board Position:

_____ S	_____ NA	_____ NP
_____ SA	_____ O	_____ NAR
_____ N	_____ OUA	_____ X PENDING

#### Department Director

#### Date

Selvi Stanislaus

3/14/06

## THIS BILL

This bill would increase the amount of the property tax exemption from \$7,000 to 25% of the purchase price of the dwelling. Increasing the amount of the exemption would decrease the amount of property tax deductions claimed on income tax forms.

This bill would also require FTB annually to annually adjust the amount of the nonrefundable renter's credit based on the consumer price index. The adjustment would begin with taxable years beginning on and after January 1, 2007.

## IMPLEMENTATION CONSIDERATIONS

Implementing this bill would require the department to update its forms and systems, which could be done during the normal annual update process.

## **LEGISLATIVE HISTORY**

AB 2738 (Wyland, 05/06) would increase, for individuals 62 years or older, the amount of the homeowner's property tax exemption from \$7,000 to \$27,000. The bill would also increase the amount of the renter's credit for those same individuals from \$60 for individuals and \$120 for married taxpayers to \$75 and \$151, respectively. AB 2738 is currently awaiting committee assignment at the Assembly Rules desk.

AB 62 (Strickland, 05/06) would have increased the homeowner's property tax exemption from \$7,000 to 25% of the value of the dwelling for certain taxpayers. AB 62 failed to pass out of the Legislature by the constitutional deadline.

AB 211 (Maze, 03/04) and AB 185 (Plescia, 05/06) would have increased the amount of the homeowner's property tax exemption from \$7,000 to \$15,000 for individuals 62 years or older. Both bills failed to pass out of the Legislature by the constitutional deadline.

SB 48 (McClintock, 01/02) would have annually adjusted the nonrefundable renter's credit amounts for inflation beginning in 2004. SB 48 failed to pass out of the legislature by the constitutional deadline.

## **OTHER STATES' INFORMATION**

Due to the variances of other states' property tax laws, it is difficult to make a meaningful comparison.

## **FISCAL IMPACT**

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

**ECONOMIC IMPACT**

Revenue Estimate

Based on data and assumptions discussed below, the revenue impact of this bill would be as follows:

Estimated Revenue Impact of AB 1922 Effective On Or After January 1, 2006 Enactment Assumed After June 30, 2006 (\$ Millions)			
Fiscal Year	2006-07	2007-08	2008-09
Homeowners	\$45	\$55	\$70
Renters	-\$2	-\$5	-\$8
Total Impact	+\$43	+\$50	+\$62

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

Revenue Discussion

**Property Tax Exemption**

This bill would increase the homeowners' property tax exemption from \$7,000 to 25% of the purchase price. The revenue impact of this provision was determined by calculating the decrease in property taxes reported as itemized deductions for income tax purposes.

Using the most recent information from the Board of Equalization, it is estimated that this provision would result in an \$810 million loss in **property tax revenue** for 2006. **For income tax purposes**, it is estimated that 75% of homeowners itemize their deductions. Itemized deductions include property taxes paid. Accordingly, the amount of income tax deductions claimed by income taxpayers would be reduced by \$608 million. (\$810 million (reduction in property taxes paid) x 75%=\$608 million (reduced income tax deductions). A marginal tax rate of 7% was then applied to the reduced income tax deductions, resulting in an estimated revenue gain of \$43 million (\$608 million (reduced income tax deductions) x 7% (tax rate)) for calendar year 2006. A decrease in deductions for property taxes would be seen on income tax returns for 2006 when filed in early 2007. The estimates above have been adjusted to reflect fiscal years.

**Renters' Credit**

This bill would require the current Renters Credit amounts (\$60 Single/\$120 Married Filing Joint) to be increased by inflation starting in 2007. In 2007, the inflation index percentage change is expected to be 2.5%. For this estimate, the change in the indexed amount (2.5%) was applied to the current law impact of -\$98 million increasing the total impact to -\$100 million. The difference between current law (-\$98 million) and the law as proposed by this bill (-\$100 million) would be -\$2 million.

**LEGISLATIVE STAFF CONTACT**

Rachel Coco  
Franchise Tax Board  
(916) 845-4328  
[rachel.coco@ftb.ca.gov](mailto:rachel.coco@ftb.ca.gov)

Brian Putler  
Franchise Tax Board  
(916) 845-6333  
[brian.putler@ftb.ca.gov](mailto:brian.putler@ftb.ca.gov)