Franchise Tax Board

ANALYSIS OF ORIGINAL BILL

Author:	Wyland	Analyst:	Rachel Coco	Bill Number:	AB 2738
Related Bills:	See Legislative History	Telephone:	845-4328	Introduced Date:	February 24, 2006
		Attorney:	Patrick Kusiak	Sponsor:	

SUBJECT: Homeowner Property Tax Exemption/Renter's Credit/Increase For Seniors

SUMMARY

For individuals 62 years or older, this bill would increase the amount of the homeowner's property tax exemption and the amount of the renter's credit.

PURPOSE OF THE BILL

According to the author's staff, 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 specifically operative for taxable years beginning on and after January 1, 2007.

POSITION

Pending.

ANALYSIS

FEDERAL/STATE LAW

Current state law requires a taxpayer who 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 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.

Board Position:			Department Director	Date
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Current state law also 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.

Current state law requires the amount of AGI to be adjusted annually for inflation.

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

THIS BILL

For assessments made on and after January 1, 2007, this bill would increase the amount of the homeowner's property tax exemption from $7,000 of the full value of the dwelling to $27,000 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 $21,600 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.

This bill would also increase the amount of the renter's credit for individuals 62 years or older. Under this bill, the amount of renter's credit for single and separate returns would increase from $60 to $75. The amount of renter's credit for taxpayers filing joint, head of household, and surviving spouse returns would increase from $120 to $151.

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.

TECHNICAL CONSIDERATIONS

This bill would provide an increased amount of renter's credit to taxpayers 62 years or older. It is unclear in the case of married couples who file joint returns whether one or both of the individuals must be 62 years or older. The author may wish to amend the bill to clarify who must meet the age requirement in that instance.

LEGISLATIVE HISTORY

AB 1922 (Walters, 05/06) would increase the homeowner's property tax exemption from $7,000 to 25% of the value of the dwelling. AB 1922 would also require that the amount of the renter's credit be adjusted annually for inflation. AB 1922 is currently in the Assembly Revenue and Taxation Committee.

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 first-time homebuyers. 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

<u>Revenue Estimate</u>

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

Estimated Revenue Impact of AB 1922 Effective For Assessment Beginning On Or After January 1, 2007 Enactment Assumed After June 30, 2006 ($ Millions)			
	2007-08	2008-09	2009-10
Homeowners	$4	$8	$8
Renters	-$1	-$1	-$1
Total Impact	$3	$7	$7

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

Revenue Discussion

Increased Property Tax Exemption

The revenue impact of this provision would be determined by the decrease in property taxes reported as itemized deductions for income tax purposes. The increase in the homeowner's exemption as proposed by this provision is $20,000 ($27,000 - $7,000) resulting in a property tax reduction of $240 for each eligible property owner ($20,000 x 1.119% property tax rate). The reduction was multiplied by the number of eligible taxpayers and the marginal tax rate ($240 x 507,400 taxpayers x 6% marginal tax rate = $7 million).

In the first fiscal year 2006-07, the revenue gain is half the subsequent years (rounded to $4 million) because it reflects the first installment of property tax due for the 2006-07 property tax cycle and takes into account that most taxpayers would probably not adjust their withholding or estimated tax payments during the year to reflect a $14 increase in personal income tax ($240 x 6%).

Increased Renter's Credit

The revenue estimate for this provision was calculated using a microsimulation tax model for taxpayers aged 65 and older who currently claim the Renter's Credit. A ratio based on census demographic data was applied to increase the number of taxpayers, and the revenue impact, to those aged 62 and older. Using that information, it was determined that approximately 50,000 senior taxpayers would have a decrease in their tax liability, of which 3,500 would be made nontaxable, under this provision.

Based on the microsimulation tax model, the revenue impact for this provision would be -$1 million for the 2006 tax year. It was determined that retired taxpayers, which includes taxpayers that are 62 years and older, generally make estimated payments typically based on the prior year tax. As a result, the fiscal year 2007-08 impact is accelerated, and includes all of the 2007 tax year, and about a third of the 2008 tax year ($370 million) for a total revenue loss of -$1.4 million.

The Renters' Credit was based on an AGI (adjusted for inflation) of $32,149 for Single taxpayers and $64,297 for Joint return filers for 2006.

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