Franchise Tax Board

ANALYSIS OF AMENDED BILL

Author:	Strickland	Analyst:	Rachel Coco	Bill Number:	AB 62
Related Bills:	See Legislative History	Telephone:	845-4328	Amended Date:	February 10, 2005
		Attorney:	Patrick Kusiak	Sponsor:	

SUBJECT:	Homeowner's Property Tax Exemption Increase

SUMMARY

This bill would increase the homeowner's property tax exemption for certain individuals.

SUMMARY OF AMENDMENTS

The February 10, 2005, amendments would increase the homeowner's property tax exemption to 25% of the full value of the dwelling for the first five years. The property tax exemption would then be reduced in increments of 5% for each of the next five years.

The bill as introduced December 9, 2004, would have increased the homeowner's property tax exemption from $7,000 to 25% of the full value of the dwelling.

This is the department's first analysis of the bill.

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 when it is at an all time high.

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

Board Position:			Department Director	Date
________ S	________ NA	________ NP		
________ SA	________ O	________ NAR	Gerald H. Goldberg	4/4/05
________ N	________ OUA	___X___ PENDING		

ANALYSIS

FEDERAL/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 a homeowner'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 $29,955 or less, and
- $120 for taxpayers filing married filing joint, head of household, or surviving spouse with an AGI of $59,910 or less.

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.

Existing federal and state laws provide that gross income includes all income from whatever source derived, including compensation for services, business income, gains from property, interest, dividends, rents, and royalties, unless specifically excluded.

Existing federal and state laws allow individuals to deduct certain expenses, such as medical expenses, charitable contributions, interest, and certain taxes, including property taxes, as itemized deductions.

THIS BILL

This bill would increase the amount of a qualified purchaser's homeowner's property tax exemption from $7,000 to 25% of the full value of the home for the first five years of ownership. The exemption amount would then be reduced in increments of 5% over each of the next five years, but would not be less than $7,000.

The bill defines "qualified purchaser" as a person who has not owned a home for the two-year period immediately preceding the lien date for the home eligible for the exemption.

This bill also expresses the Legislature's intent to provide a comparable benefit to qualified renters.

By reducing the amount of property tax paid, this bill would result in qualified purchasers having less itemized deductions on their income tax returns.

IMPLEMENTATION CONSIDERATIONS

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

LEGISLATIVE HISTORY

AB 185 (Plescia, 2005/06) would increase the amount of the homeowner's property tax exemption from $7,000 to $15,000 for individuals 62 years or older. AB 185 is currently in the Assembly Revenue and Taxation Committee's suspense file.

AB 211 (Maze, 2003/04) would have increased the amount of the homeowner's property tax exemption from $7,000 to $15,000 for individuals 62 years or older. 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 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, Florida, and *Michigan* provide homestead exemptions, similar to California's property tax exemption, in amounts of $3,500, $25,000, and 10% of the property value, respectively. However, none of these states provide an increased exemption amount for first-time homebuyers.

Massachusetts, *Minnesota,* and *New York* do not provide any general property tax exemption for homeowners.

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 gain from this bill is as follows:

Estimated Revenue Impact of AB 62 For Assessment Years Beginning On Or After January 1, 2006 With Enactment Assumed After June 30, 2005 In Millions		
2005-06	2006-07	2007-08
$1	$17	$32

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

Revenue Discussion

The revenue impact of this bill is dependent on the dollar value decrease in property taxes reported as itemized deductions for income tax purposes.

The Board of Equalization estimates the loss of property tax revenue to approximate $245 million for tax year 2006 and $484 million for tax year 2007. Assuming that 75% of this amount would accrue to taxpayers who itemize their deductions and applying an average marginal tax rate of 7% revenue gains are estimated to be approximate $13 million (($245 million x 75%) x 7%) for calendar year 2006. The estimate above has been adjusted to reflect fiscal years.

LEGISLATIVE STAFF CONTACT

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