Franchise Tax Board

ANALYSIS OF ORIGINAL BILL

Author:	Duvall	Analyst:	Jennifer Bettencourt	Bill Number:	AB 2256
Related Bills:	See Legislative History	Telephone:	845-5163	Introduced Date:	February 21, 2008
		Attorney:	Patrick Kusiak	Sponsor:	

SUBJECT: Renter Credit/Homeowner's Property Tax Exemption/Increase Credit & Exemption Amt. On & After Jan. 1 2009/ Adjust Credit Amt For Inflation For Taxable Years Beg. On & After January 1, 2010

SUMMARY

This bill would increase the amount of the homeowner's property tax exemption and the renter's credit.

PURPOSE OF THE BILL

According to the author's staff, the purpose of this bill is to ease the burden for taxpayers who own or rent a home by reducing the financial obligations of owning a home and making the tax credit for renter's more in sync with the rising costs to rent a home.

EFFECTIVE/OPERATIVE DATE

As a tax levy, this bill would be effective immediately upon enactment and specifically operative beginning with the 2009-2010 lien year for the property tax exemption and the 2009 taxable year for the renter's credit.

POSITION

Pending.

ANALYSIS

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 a homeowner's dwelling is exempt from that property tax.

Current state law allows a nonrefundable credit for qualified renters in the following amounts:

- $60 for single and married filing separate with an adjusted gross income (AGI) of $32,272 or less, and
- $120 for married or registered domestic partners filing joint, heads of household, or surviving spouse with an AGI of $64,544 or less.

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

Board Position:			Department Director	Date
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The California Constitution requires the Legislature to provide increases in benefits to qualified renters that are comparable to the average increase in benefits provided to homeowners under the homeowner's property tax exemption.

THIS BILL

This bill would increase the homeowner's property tax exemption from $7,000 to $75,000 beginning with the lien date for the 2009-2010 fiscal year.

Beginning with the lien date for the 2010-2011 fiscal year, this bill would require the assessor to annually adjust the exemption amount using the percentage change in the Housing Price Index for California for the first three quarters of the prior calendar year.

Beginning with the 2009 taxable year, this bill would also increase the nonrefundable renter's credit as follows:

- $643 for taxpayers filing single or married filing separate (MFS) with an AGI of $33,272 or less, and
- $1,286 for taxpayers filing married filing joint, head of household, or surviving spouse with an AGI of $66,544 or less.

This bill would require the Franchise Tax Board (FTB) to annually adjust the amount of the renter's credit for inflation beginning with the 2010 taxable year.

This bill would also make non-substantive technical changes to the language.

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 293 (Strickland, 2007/2008) would have increased the homeowner's property exemption from $7,000 to $22,000. AB 293 failed to pass the Assembly Revenue and Taxation Committee.

AB 388 (Gaines, 2007/2008) would have increased the amount of the homeowner's property tax exemption from $7,000 to $25,000 and increased the renter's credit amount to $215 for single or MFS and $430 for married/RDP filing joint or head of household. AB 388 failed to pass the Assembly Revenue and Taxation Committee.

AB 968 (Walters, 2007/2008) would have increased the homeowner's property exemption for first-time homebuyers to 25% of the dwelling purchase price and adjust the renter's credit for inflation for taxable years on or after January 1, 2008. AB 968 failed to pass the Assembly Revenue and Taxation Committee.

AB 972 (Walters, 2007/2008) would have increased the amount of the homeowner's property tax exemption and require the FTB to annually adjust the renters' credit amount for inflation. This bill failed to pass Assembly Revenue and Taxation Committee.

AB 1922 (Walters, 2005/2006) would have increased the amount of homeowner's property tax exemption and required FTB to adjust annually the amount of the nonrefundable renter's credit for inflation. AB 1922 failed to pass the Assembly Revenue and Taxation Committee.

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.

Because the department lacks property tax expertise and due to the variances of other states' property tax laws, it is difficult to make a meaningful comparison with respect to the increase in the homeowners' property tax exemption proposed by this bill. With the exception to the property tax exemption, similar findings are listed below.

Property Tax Credit and Renter's Credit

Michigan allows renters or lessees of homesteads to claim a credit based on 20% of the gross rent paid for taxable years after 1993. A person who rents or leases a homestead, subject to a service charge instead of property taxes, can claim a credit based on 10% of the gross rent paid. Only the renter or lessee can claim a credit on property that is rented or leased as a homestead. The maximum credit is $1,200.

New York allows a real property tax credit for residents who have household gross income of $18,000 or less and pay either real property taxes or rent for their residences. If all members of the household are under age 65, the maximum credit is $75. If at least one member of the household is age 65 or older, the maximum credit is $375.

Illinois, Massachusetts, and *Minnesota* do not have a comparable credit. *Florida* does not have a personal income tax.

FISCAL IMPACT

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

ECONOMIC IMPACT

Revenue Estimate

This bill would result in the following revenue losses:

Estimated Revenue Impact of AB 2256 Effective On or After January 1, 2009 Enactment Assumed After June 30, 2008 ($ in Millions)			
	2009-2010	2010-2011	2011-2012
Homeowner's Exemption Increase	+$113	+$193	+$203
Renter's Credit Increase	-$259	-$255	-$265
Net Revenue Loss	-$146	-$62	-$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

Homeowner's Exemption – The income tax impact of this provision would result from smaller property tax deductions reported as an itemized deduction on the personal income tax return. Under this provision, property taxes would be reduced beginning with payments due in November, 2009.

Based on projected personal income tax return data, it is estimated that 5.8 million taxpayers will itemize their home property taxes for the 2009 tax year. The Board of Equalization estimates the average homeowner's exemption tax rate is 1.137%. Applying this tax rate to the $68,000 increased exemption amount ($75,000 as proposed - $7,000 current law) would generate an additional property tax savings of approximately $775 per taxpayer ($68,000 x 1.137%), or a total property tax savings of approximately $4.5 billion ($775 x 5.8 million taxpayers). Applying a 4% marginal tax rate would result in a revenue increase of $180 million ($4.5 billion x 4%) for the 2009 calendar year.

The fiscal year estimates are based on the assumption that 55% of 2009-2010 property tax payments will be made in 2009.

Renter's Credit – The revenue impact for this provision was calculated using the personal income tax model. It is projected that there would be approximately 1 million renters claiming the increased amount of credit on the 2009 tax return. The difference in Renter's Credit claimed would be $583 for single filers ($643 as proposed - $60 credit current law) and $1,166 for taxpayers filing a joint return ($1,286 as proposed - $120 current law), resulting in a combined revenue loss of approximately $246 million for the 2009 taxable year.

Offsetting the revenue gain for the increased homeowner's exemption ($180 million) against the revenue loss for the increased Renter's Credit ($246 million), results in a net revenue loss of $66 million for the 2009 taxable year.

The estimates above have been adjusted to reflect fiscal years.

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