Franchise Tax Board

SUMMARY ANALYSIS OF AMENDED BILL

Author: Strickland/Benoit Analyst: Angela Raygoza Bill Number: AB 293

Related Bills: See Prior Analysis Telephone: 845-7814 Amended Date: April 12, 2007

Attorney: Douglas Powers Sponsor: ______

SUBJECT: Renter's Credit/Homeowner's Property Tax Exemption/Increase Credit & Exemption Amounts On And After January 1, 2008/Adjust Credit Amount For Inflation For Taxable Years Beginning On And After January 1, 2009

____ DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended __________________.

_X_ AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

____ AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as introduced/amended ____________________.

____ FURTHER AMENDMENTS NECESSARY.

____ DEPARTMENT POSITION CHANGED TO ____________________.

____ REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED/AMENDED ________________________ STILL APPLIES.

_X_ OTHER – See comments below.

SUMMARY

This bill will increase the homeowner's property exemption and adjust the amount of the renter's credit annually for inflation.

SUMMARY OF AMENDMENTS

The April 12, 2007, amendments added language that would increase the amount of the renter's credit. The amendments would also require the Franchise Tax Board (FTB) to adjust the renter's credit annually for inflation. As a result of the amendments, the "Effective/Operative Date," "State Law," "This Bill," "Implementation Considerations," and "Economic Impact" discussions, as provided in the department's analysis of the bill as introduced February 9, 2007, have been revised. Except for the discussion in this analysis, the remainder of the department's analysis of the bill as introduced on February 9, 2007, still applies.

Board Position:			Legislative Director	Date
____ S	____ NA	____ NP		
____ SA	____ O	____ NAR	Patrice Gau-Johnson	5/16/07
____ N	____ OUA	_X_ PENDING	for Brian Putler	

EFFECTIVE/OPERATIVE DATE

As a tax levy, this bill would be effective immediately upon enactment, but specifies an operative date beginning on or after January 1, 2008. This bill specifies that the provision that would require FTB to adjust the amount of the renter's credit for inflation annually would be operative for the 2009 taxable year and for each taxable year thereafter.

POSITION

Pending.

ANALYSIS

STATE LAW

Current state law requires a taxpayer who owns real estate to be assessed a tax on that property at a specified percentage. The county where the property is located generally assesses this tax. For individuals who file a claim for the homeowner's exemption, the first $7,000 of the full value of the taxpayer's dwelling is exempt from that property tax.

Current state law also allows a nonrefundable income tax credit for a qualified renter in the following amounts:

- $120 for a married couple filing a joint return, head of household, or surviving spouse with adjusted gross income (AGI) of $64,544 or less, and
- $60 for other individuals with AGI of $32,272 or less.

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

THIS BILL

Starting with the property tax lien date for the 2008/2009 fiscal year, this bill would increase the amount of the homeowner's property tax exemption from $7,000 to $22,000. By increasing the amount of the exemption, it would have the effect of decreasing the amount of property tax itemized deductions claimed on personal income tax returns.

In addition, this bill would require the exemption amount to be adjusted by the percentage change (and rounded to the nearest one-thousandth of 1%) beginning with the lien date for the 2009/2010 fiscal year, and each fiscal year thereafter, using the Housing Price Index of California.

This bill would increase the income tax credit for qualified renters for taxable years beginning on or after January 1, 2008, to the following amounts:

- $380 for a married couple filing a joint return, heads of household, and surviving spouse with AGI of $50,000 or less as adjusted for inflation, and
- $190 for other individuals with AGI of $25,000 or less, as adjusted for inflation.

In addition, this bill would require the FTB to adjust the renter's credit annually for inflation based upon the California Consumer Price Index for the 2009 taxable year and thereafter.

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.

FISCAL IMPACT

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

ECONOMIC IMPACT

Revenue Estimate

The bill would result in the following revenue gains:

Estimated Revenue Impact of AB 293 Effective with the 2008 Tax Year Enactment Assumed After June 30, 2007 ($ in Millions)			
	2008-09	2009-10	2010-11
Renter's Credit	-$7	-$7	-$7
Homeowners Property Exemption	$24	$41	$42
Total Impact	$17	$34	$35

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

Revenue Discussion

Renter's Credit-The revenue impact for this provision was calculated using the department's personal income tax model. This data was extrapolated from the 2004 tax year returns for people that claimed the renter's credit. It is projected that for the 2008 tax year there will be 795,000 renters claiming the higher amount.

Homeowner's Exemption – The income tax impact of this provision would result from smaller property tax deductions reported by taxpayers that itemize on their personal income tax returns. This estimate assumes that the first property tax due date after enactment of this bill would be November, 2008.

Based on current personal income tax return data, it is estimated that 5.8 million taxpayers filing tax returns will itemize their property taxes for the 2008 tax year. The Board of Equalization estimates the average property tax rate at 1.098%. Applying this tax rate to the increased exemption amount of $15,000 ($22,000 - $7,000 = $15,000) would generate an additional property tax savings of $165 per taxpayer ($15,000 x 1.098% = $165).

The decrease in itemized deductions for homeowners would be approximately $949 million (5.75 million taxpayers x $165 = $949 million) for a total income tax increase approaching $38 million, assuming an average marginal tax rate of 4% ($949 million x 4% = $38 million). For fiscal year 2008/2009, it was assumed that some taxpayers would adjust their estimated income tax payments, reducing the impact to $24 million. Calculations in the table above were converted to fiscal years.

LEGISLATIVE STAFF CONTACT

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