Franchise Tax Board

ANALYSIS OF ORIGINAL BILL

Author: Smyth Analyst: Angela Raygoza Bill Number: AB 351

Related Bills: See Legislative History Telephone: 845-7814 Introduced Date: February 14, 2007

Attorney: Doug Powers Sponsor:

SUBJECT: Renters' Credit & Homeowners' Property Tax Exemption/Increase Amounts For Seniors Beginning On Or After January 1, 2008

SUMMARY

For individuals 62 years or older, this bill would increase the amounts for both the homeowners' property tax exemption and the renters' credit.

PURPOSE OF THE BILL

According to the author's staff, the purpose of this bill is to reduce the property tax burden for seniors 62 years of age and older.

EFFECTIVE/OPERATIVE DATE

As a tax levy, this bill would be effective immediately upon enactment and specifically states operative for taxable years beginning on and after January 1, 2008.

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. For individuals who file a claim for the homeowners' exemption, the first $7,000 of the full value of the taxpayer's dwelling is exempt from 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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In addition, current state law allows a nonrefundable income tax credit for qualified renters in the following amounts:

- $60 for other individuals for example, single and married filing separate, with an adjusted gross income (AGI) of $32,272 or less, and
- $120 for married couples[1] filing joint returns, 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.

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.

THIS BILL

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 who are 62 years or older. All other homeowners would continue to receive a property tax exemption of $7,000.

In the event of a late-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 increase the nonrefundable income tax credit for qualified renters age 62 and older in the following amounts:

- $75 for taxpayers filing single or married filing separate with an AGI of $32,272 or less, and
- $151 for taxpayers filing married filing joint, head of household, or surviving spouse with an AGI of $64,544 or less.

IMPLEMENTATION 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 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.

TECHNICAL CONSIDERATIONS

Section 17053.5(j)(3) of this bill makes an obsolete reference. The author may wish to amend the provision to clarify what figures should be adjusted by the inflation adjustment factor.

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[1] California enacted SB 1827 as law, beginning January 1, 2007, which requires registered domestic partners to use the same filing status as married couples; married filing joint, married filing separate, and surviving spouse.

LEGISLATIVE HISTORY

AB 293 (Strickland, 07/08) would increase the homeowner's property exemption from $7,000 to $22,000 on the full value of a dwelling. This bill is currently in the Assembly Revenue & Taxation Committee.

AB 185 (Plescia, 05/06) would have increased the amount of the homeowner's property tax exemption from $7,000 of the full value of the dwelling to $15,000 for individuals 62 years or older. AB 185 failed to pass out of the Legislature by the constitutional deadline.

AB 2738 (Wyland, 05/06) was identical to this bill. AB 2738 failed to pass out of 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 certain taxpayers. AB 62 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 provides a Circuit Breaker Grant to refund money to seniors citizens aged 65 and older that paid property taxes, mobile home taxes, rent, or nursing charges. The grant is figured using a percentage of the amount paid in rent.

Massachusetts provides a "Circuit Breaker" tax credit for senior citizens aged 65 years or older. The credit is for rent paid on their principle residence. The maximum amount of credit allowed is $870 for taxable year beginning January 1, 2006.

Michigan provides a homestead property tax credit to senior citizens 65 years or older for rent paid on a homestead. The amount of the credit is determined by a calculation between household income and the amount of rent paid.

New York provides a real property tax credit to senior citizens 65 years or older for part of the real property taxes or rent paid. If household gross income for the tax year was $18,000 or less, and at least one qualified member of the household is age 65 or older, the credit can be as much as $375.

Florida and Minnesota do not have a comparable credit.

Franchise Tax Board does not administer property taxes and therefore 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

This bill would result in the following revenue gains:

Estimated Revenue Impact of AB 351 Effective with the Lien Date for the 2008-09 Fiscal Year Enactment Assumed After June 30, 2007 ($ in Millions)				
	2007-08	2008-09	2009-10	2010-11
Homeowners	$0	+$8	+$13	+$13
Renters	No impact	-$0.9	-$0.9	-$0.9
Total	$0	+$7	+$12	+$12

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

Revenue Discussion

Renters' Credit – The revenue impact of this component of the bill would be determined by new and additional credit claims due to the increased credit amount. It is projected that for the 2007 tax year there would be 39,000 renters claiming the renters' credit under this bill.

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

Based on current tax return data, it is estimated that 821,000 senior taxpayers aged 62 and older, filing taxable returns will itemize their home property taxes for the 2008 tax year. The Board of Equalization estimates the average property tax rate as 1.098%. Applying this tax rate to the increased exemption amount of $20,000 ($27,000 - $7,000 = $20,000) would generate an additional property tax savings of $220 ($20,000 x 1.098% = $220). The decrease in itemized deductions for homeowners would be approximately $180 million (821,000 taxpayers claiming the exemption x $220 = $180 million) for a total income tax increase approaching $13 million, assuming an average marginal tax rate of 7% ($180 million x 7% = $13 million). For fiscal year 2008-09, it was assumed that some taxpayers would adjust their payments, reducing the impact to $8 million.

Property taxes would be reduced starting with the second half of 2008. Therefore, the change in deductions for the 2008 income tax year will be approximately half of what it will be when the change is fully implemented in 2009. Calculations in the Tax Revenue Estimate table above were converted to fiscal years.

LEGISLATIVE STAFF CONTACT

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