Franchise Tax Board

ANALYSIS OF ORIGINAL BILL

Author:	Walters	Analyst:	Angela Raygoza	Bill Number:	AB 968
Related Bills:	See Legislative History	Telephone:	845-7814	Introduced Date:	February 22, 2007
		Attorney:	Patrick Kusiak	Sponsor:	

SUBJECT: Increase Homeowner's Property Tax Exemption to 25% Of Dwelling Purchase Price For First Time Homebuyer's And Adjust Renter's Credit For Inflation

SUMMARY

This bill would increase the property tax exemption for first-time homebuyer's and adjust the amount of the renter's credit for inflation.

PURPOSE OF THE BILL

According to the author's office, the purpose of this bill is to reduce the tax burden on individuals entering the housing market for the first time.

EFFECTIVE/OPERATIVE DATE

As a tax levy, this bill would be effective and operative immediately upon enactment. This bill specifies that the provision requiring the Franchise Tax Board (FTB) to adjust the amount of the renter's credit annually would be 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 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 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 renter's in the following amounts:

- $60 for other individuals (for example, single or 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 for inflation annually.

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

<u>THIS BILL</u>

This bill would increase the property tax exemption amount from $7,000 to 25% of the dwelling purchase price for first-time homebuyer's only.

This bill would also adjust the amount of the renter's credit for inflation annually for taxable years beginning on or after January 1, 2008.

<u>IMPLEMENTATION CONSIDERATIONS</u>

Implementing this bill would require the department to update its forms and systems, which could be done during the normal annual update process.

Registered Domestic Partners (RDPs) are required to file California income tax returns using the rules applicable to married individuals. If the author's intention is to allow the same deduction/credit provided in this bill for RDPs as married individuals, a rule should be included to address the difference between federal and state law. Department staff is available to work with the author's office to resolve this concern.

LEGISLATIVE HISTORY

AB 293 (Strickland), AB 388 (Gaines), and AB 972 (Walters) of the 2007/2008 session would increase the homeowner's property exemption and adjust the amount of the renter's credit. These bills are currently in the Assembly Revenue & Taxation Committee.

AB 62 (Strickland) and AB 185 (Plescia) of the 2005/2006 session would have increased the homeowner's property tax exemption. Both these bills failed to pass out of the Assembly Revenue & Taxation Committee by the constitutional deadline.

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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, or surviving spouse.

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.

Research found that *Michigan* and *New York* provide a credit similar to the California renter's credit. *Michigan* provides a credit to renters or lessees, based on 20% of the gross rent paid. *New York* provides a credit for residents who have household gross income of $18,000 or less. If all qualified members of the household are under age 65, the credit can be as much as $75. These credits do not appear to be indexed for inflation.

Illinois and Minnesota lack a comparable credit. *Florida* has no personal income tax.

The Franchise Tax Board does not administer property taxes 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 homeowner's property tax exemption amount.

FISCAL IMPACT

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

ECONOMIC IMPACT

<u>Revenue Estimate</u>

This bill would result in the following revenue gains:

Estimated Revenue Impact of AB 968 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	+$2	+$60	+$92	+$92
Renters' Credit	NA	-$3	-$6	-$9
Total	+$2	+$57	+$86	+$83

NA is not applicable

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

<u>Revenue Discussion</u>

Renter's Credit – The revenue impact of this provision was calculated using the department's personal income tax model. The revenue impact would be determined by increased credit claims due to the larger credit amount. It is projected that for the 2007 tax year there will be one million renters claiming the increased amount of renter's credit. In 2008, the inflation percentage change is expected to be 2.6%. The inflation-adjusted credit amounts would be $62 and $123, up from $60 and $120.

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

This provision would reduce property tax deductions available to first-time homeowners by almost 25%. Based on the personal income tax model, it is estimated that property tax deductions would reduce income taxes by about $1.4 billion in 2008. Assuming that about 25% of this reduction is for taxpayers in their first homes, and that this change in the homeowner's exemption would reduce income tax savings by about 25%, the revenue gain from this provision would be about $90 million ($1.4 billion x 25% x 25%). The estimate assumes a 6% annual growth rate of property tax values thereafter.

The estimates presented above assume that 55% of 2008-09 property tax payments are made during the 2008 income tax year, and that it would take taxpayers three years to fully adjust their withholding and estimated payments.

LEGISLATIVE STAFF CONTACT

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