Franchise Tax Board

SUMMARY ANALYSIS OF AMENDED BILL

Author: Walters | Analyst: Angela Raygoza | Bill Number: AB 972

Related Bills: See Prior Analysis | Telephone: 845-6111 | Amended Date: May 16, 2007

Attorney: Daniel Biedler | Sponsor: ______

SUBJECT: Renter Credit/Increase Credit To $1,000 & $500/Adjust Gross Income & Credit Amount For Inflation For Taxable Years On Or After January 1, 2008/ Homeowner's Property Exemption/Increase to 25% of Dwelling Purchase Price

____ 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 ____________.

__X__ REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED February 22, 2007, STILL APPLIES.

__X__ OTHER – See comments below.

SUMMARY

This bill would increase the amount of the homeowner's property tax exemption, increase the renters' credit amount, and require the Franchise Tax Board to adjust the renter's credit amount for inflation annually.

SUMMARY OF AMENDMENTS

The May 16, 2007, amendments increased the renters' credit amount. As a result of the amendments, the "This Bill" and "Economic Impact" discussions, as provided in the department's analysis of the bill as introduced February 22, 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 22, 2007, still applies.

POSITION

Pending.

Board Position:			Legislative Director	Date
____ S	____ NA	____ NP		
____ SA	____ O	____ NAR	Brian Putler	6/15/07
____ N	____ OUA	__X__ PENDING		

ANALYSIS

THIS BILL

- This bill would increase the property tax exemption amount from $7,000 to 25% of the purchase price of the dwelling.
- This bill would increase the renters' credit amount from $120 to $1,000 for married couples filing joint returns, head of household, and surviving spouses if adjusted gross income is $50,000 or less.
- This bill would increase the renters' credit amount from $60 to $500 for other individuals if adjusted gross income is $25,000 or less.
- This bill would also adjust the amount of the renters' credit for inflation annually for taxable years beginning on or after January 1, 2008.

ECONOMIC IMPACT

Revenue Estimate

This bill would result in the following revenue impact:

Estimated Revenue Impact of AB 388 Homeowners' Operative with the Lien Date for the 2008-09 Fiscal Year Renters Credit Operative January 1, 2007 Enactment Assumed After June 30, 2007 ($ in Millions)				
	2007-08	2008-09	2009-10	2010-11
Renters' Credit	-$325	-$260	-$270	-$275
Homeowners	+$10	+$282	+$415	+$390
Total	-$315	-$22	+$145	+$115

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

Renters' Credit

The revenue impact for this provision was calculated using the personal income tax model. The revenue impact would be determined by increased credit claims due to the larger credit amount. This data was extrapolated from the 2005 tax year returns for people that claimed the renters' credit. It is projected that for the 2007 tax year there would be approximately one million renters claiming the higher $500 or $1,000 renters' credit. In 2008, the inflation percentage change is expected to be 2.4% (revised from 2.6%). Therefore, the inflation-adjusted credit amounts would be $512 and $1,024.

The revenue impact for the May 16, 2007, amendments would begin in the 2007-08 fiscal year because the higher credit amount would be available in 2007. Whereas, in the bill as introduced, the credit amount of $60 and $120 would be unchanged in 2007.

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 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 homeowner's 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 this change in the homeowner's exemption will reduce income tax savings by about 25%, the revenue gain from this provision would be $350 million ($1.4 billion x 25% = $350 million) in fiscal year 2008-09. 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 takes taxpayers three years to fully adjust their withholding and estimated payments.

Tax year estimates are converted to cash flow fiscal year estimates. The 2007-08 fiscal year includes a small portion of the 2008 tax year (+$10 million). The 2008-09 fiscal year includes most of the 2008 tax year, and a portion of the 2009 tax year (+$282 million). By the 2009-10 fiscal year, the last portion of 2008 is included with some amounts of 2009 and 2010 (+$415 million). The 2010-11 fiscal year includes portions of only 2010 and 2011 (+$390 million).

LEGISLATIVE STAFF CONTACT

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