Franchise Tax Board

ANALYSIS OF AMENDED BILL

Author:	Walters	Analyst:	Matthew Cooling	Bill Number:	SB 1430
Related Bills:	See Legislative History	Telephone:	845-5983	Introduced Date: Amended Date:	February 19, 2010 March 24, 2010
		Attorney:	Patrick Kusiak	Sponsor:	

SUBJECT: Renter Credit & Homeowners' Property Tax Exemption/Increase Credit & Exemption Amounts For Taxpayers 62 Or Older

SUMMARY

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

SUMMARY OF AMENDMENTS

The March 24, 2010, amendments would make a technical change to correct the fiscal year for which the property tax provisions of this bill would be effective.

This is the department's first analysis of this bill.

PURPOSE OF THE BILL

According to the author's staff, the purpose of this bill is to increase the property tax exemption and renter's credits to reduce the heavy burden of high property costs for seniors, as many seniors live on a reduced, fixed income.

EFFECTIVE/OPERATIVE DATE

As a tax levy, this bill would be effective immediately upon enactment. For the purposes of the property tax exemption, this bill would be specifically operative beginning on the lien date for the 2011-12 fiscal year. With respect to the renter's credit provisions, this bill would be specifically operative for taxable years beginning on or after January 1, 2010.

POSITION

Pending.

Board Position:			Department Director	Date
_______ S	_______ NA	_______ NP		
_______ SA	_______ O	_______ NAR	Selvi Stanislaus	04/29/10
_______ N	_______ OUA	___X___ PENDING		

ANALYSIS

FEDERAL/STATE LAW

Property Tax Exemption

Current state law requires a taxpayer who owns real estate to be assessed a tax on that property at a specified percentage of the value. The tax is generally assessed in the county where the property is located. 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.

Renter's Credit

Under the Personal Income Tax Law, qualifying renters that meet certain adjusted gross income limitations are allowed a credit of $60 or $120, based on filing status. The credit is not related to the amount of rent paid. A "qualified renter" is defined as an individual who:

- is a California resident, and
- rented and occupied California premises constituting his or her principal place of residence for at least 50 percent of the taxable year.

The definition of "qualified renter" does not include individuals:

1. Who, for more than 50 percent of the taxable year, rented and occupied premises that, with certain exceptions, were exempt from property taxes.
2. Whose principal place of residence for more than 50 percent of the taxable year is with any other person who claimed that individual as a dependent for income tax purposes.
3. Who have been granted or whose spouse has been allowed the homeowner's property tax exemption during the taxable year, as specified.

Any qualified renter who is a nonresident for a portion of the taxable year is allowed 1/12 of the renters' credit for each full month that the individual resided in the state for the taxable year, once the requirement of renting in California for more than 50 percent of the taxable year has been met.

A "resident" is defined as:

1. Every individual who is in this state for other than a temporary or transitory purpose.
2. Every individual domiciled in this state who is outside the state for a temporary or transitory purpose.

The California Constitution requires the Legislature, whenever it increases the homeowners' property tax exemption, to provide a comparable increase in benefits to qualified renters.

THIS BILL

Property Tax Exemption

This bill would increase the annual property tax exemption amount for taxpayers that are 62 years of age or older from $7,000 to $27,000. The increased exemption would be effective beginning on the lien date for the 2011-12 fiscal year. This bill would also require that beginning on the lien date for the 2012-13 fiscal year, and for each successive year, the local county assessor shall increase the exemption amount according to the percentage change in the California House Price Index as determined by the Federal Housing Finance Agency.

Renter's Credit

This bill would increase the renter's credit for taxpayers who are married couples filing joint returns, heads of household, and surviving spouses, and who are 62 years of age or older from $120 to $151 for taxable years beginning on or after January 1, 2010. For all other individuals who are 62 years of age or older, the credit would increase from $60 to $75.

This bill would require the Franchise Tax Board (FTB) to adjust these amounts annually for taxable years beginning on or after January 1, 2011, based on the percentage change in the Consumer Price Index.

IMPLEMENTATION CONSIDERATIONS

The department has identified the following implementation concerns. Department staff is available to work with the author's office to resolve these and other concerns that may be identified.

This bill would allow a credit for taxpayers who are 62 years of age or older. It is unclear when the taxpayer must reach the minimum age of 62 in order to claim the credit and could lead to disputes between taxpayers and the department. It is recommended that the author clarify that the taxpayer must be 62 years of age or older on or before a specified date to claim the credit.

This bill would allow married couples filing joint returns to claim a credit of $151 for taxpayers 62 years of age or older. This bill fails to specify whether both individuals filing a joint return must meet the age requirement or if only one of the two taxpayers filing a joint return must be 62 years of age or older. This could lead to disputes between taxpayers and the department. It is recommended that the author clarify the age requirement of both taxpayers filing a joint return for the purposes of this bill.

LEGISLATIVE HISTORY

AB 293 (Strickland, 2007/2008) would have increased the homeowner's property exemption from $7,000 to $22,000 on the full value of a dwelling. This bill failed to pass out of the house of origin by the constitutional deadline.

AB 351 (Smyth, 2007/2008) and AB 495 (Tran, 2007/2008) would have increased the amounts for both the homeowners' property tax exemption and the renters' credit for individuals 62 years or older. Both AB 351 and AB 495 failed to pass out of the house of origin by the constitutional deadline.

AB 388 (Gaines, 2007/2008) would have increased the property tax exemption and renter's credit for taxpayers. This bill failed to pass out of the house of origin by the constitutional deadline.

AB 968 (Walters, 2007/2008) would have increased the homeowner's property exemption for first-time homebuyers to 25 percent of the dwelling purchase price and adjust the renter's credit for inflation for taxable years on or after January 1, 2008. This bill failed to pass out of the house of origin by the constitutional deadline.

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 out of the house of origin by the constitutional deadline.

OTHER STATES' INFORMATION

Florida, Illinois, Massachusetts Michigan, and *New York* offer property tax exemptions. Minnesota allows an exemption for improvements to real property.

Massachusetts, Minnesota, and *New York* do not offer a renter's credit. *Florida, Illinois,* and *Michigan* allow a renter's credit if authorized by the Legislatures of those states. *Florida's* renter's credit is against any property taxes owed.

These states were selected due to their similarities to California's economy, business entity types, and tax laws.

FISCAL IMPACT

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

ECONOMIC IMPACT

This bill would result in the following revenue gains:

Estimated Revenue Impact of SB 1430 Operative for Tax Years Beginning On or After January 1, 2010 Assumed Enactment By September 30, 2010 [$ In Millions]		
2010-11	2011-12	2012-13
$0	$7	$7

This analysis does not account for changes in employment, personal income, or gross state product that could result from this bill.

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