Franchise Tax Board

REVISED ANALYSIS

Author:	Dutton	Analyst:	Angela Raygoza	Bill Number:	SB 49
Related Bills:	See Legislative History	Telephone:	845-7814	Original Analysis Date:	May 6, 2009
		Attorney:	Patrick Kusiak	Sponsor:	

SUBJECT: Principal Residence Credit

X REVENUE ESTIMATE CHANGED.

____ FURTHER CONCERNS IDENTIFIED.

X REMAINDER OF PREVIOUS ANALYSIS OF BILL AS AMENDED May 6, 2009, STILL APPLIES.

____ OTHER – See comments below.

SUMMARY OF BILL

This bill would make substantive changes to the Qualified Principal Residence Credit.

SUMMARY OF REVISION

The revenue estimate contained in the department's analysis of the bill as amended on May 6, 2009, has been revised to reflect current 2010 new home sales projections, credit usage based on a sample of taxpayers approved for the home purchase credit, sample taxpayers prior year tax liabilities, and recent California tax law changes.

POSITION

Pending.

Board Position:			Asst. Legislative Director	Date
____ S	____ NA	____ NP		
____ SA	____ O	____ NAR	Patrice Gau-Johnson	7/15/09
____ N	____ OUA	X PENDING		

ECONOMIC IMPACT

Original Revenue Estimate

Estimated Revenue Impact of SB 49 Effective For Purchases Made On or After March 1, 2009, through March 1, 2010 Enactment Assumed After June 30, 2009 ($ in Millions)		
2009-10	2010-11	2011-12
-$18	-$22	-$19

Revised Revenue Estimate

Estimated Revenue Impact of SB 49 Effective For Purchases Made On or After March 1, 2009, through March 1, 2010 Enactment Assumed After June 30, 2009 ($ in Millions)		
2009-10	2010-11	2011-12
-$53	-$73	-$65

Revenue Discussion

The revenue impact of this bill would depend on the number of taxpayers that purchase a new or previously unoccupied single-family home and are currently unable to apply for the Qualified Principal Residence Purchase Credit due to the credit’s $100 million allocation limitation. As of July 2, 2009, FTB has received 12,000 applications representing an excess of $100 million in tax credits for new home purchases.

Based on data from the California Builder Association for 2008 and using the Department of Finance’s (DOF’s) growth projections for new home starts as a proxy for growth in new home sales, it is estimated that approximately 33,500 new homes will be sold during 2009 in California. To exclude investment purchases, because qualified purchases must serve as a taxpayer’s primary residence, projected new home sales for 2009 are reduced by 5 percent to approximately 31,800 [33,500 x (1- 5%)]. Next, because qualified purchases are limited to those made on or after March 1st, total sales for 2009 are reduced by approximately 17 percent (2 months ÷12 months) to approximately 26,400 [31,800 x (1-17%)].

Current law provides a 5 percent or $10,000 credit for qualified purchases up to $100 million in total credits. This equates to 10,000 purchases ($100 million credit limit ÷ $10,000 credit amount). This bill would remove the credit allocation limit of $100 million, which would allow an estimated, additional 16,400 purchases to qualify for the credit (26,400 – 10,000 number of credits allowed under current law). For tax year 2010, qualified purchases are estimated to total 14,800; this is based on DOF's growth projections of more than a 60 percent increase in sales. Qualified 2010 purchases also include additional sales for taxpayers that are anticipated to enter into a contract before March 1, 2010, and close of escrow later in the year but before December 1, 2010.

New credits generated during 2009 are estimated to total approximately $164 million (16,400 purchases x $10,000 credit amount). Starting with the tax year of the purchase, current law requires that no more than one-third of credits generated be used in each of the three taxable years. For 2009, this reduces total credits available for use to approximately $54.6 million ($164 million ÷ 3 years).

Based on a sample of 3,000 taxpayers approved for the home credit, their 2007 income tax liabilities, and incorporating 2009 tax law changes, it is estimated that on average 70 percent or approximately $38 million ($54.6 million total credits available in 2009 x 70% credit utilization) will be used to reduce personal income tax liabilities. [1] Using the same methodology for 2010 purchases, losses are estimated at $35 million per year for three years. The figures in the chart have been adjusted to reflect the cash flow impact on a fiscal-year basis. The revenue loss for fiscal year 2009-10, $73 million, includes $38 million in new credits applied to reduce tax year 2009 liabilities and $35 million in reduced estimated payments for tax year 2010 liabilities.

LEGISLATIVE STAFF CONTACT

Legislative Analyst
Angela Raygoza
(916) 845-7814
angela.raygoza@ftb.ca.gov

Revenue Director
Jay Chamberlain
(916) 845-3375
jay.chamberlain@ftb.ca.gov

Assistant Legislative Director
Patrice Gau-Johnson
(916) 845-5521
patrice.gau-johnson@ftb.ca.gov

[1] Increase in the tax rates and reduction in the dependent exemption credit amount.