Franchise Tax Board

SUMMARY ANALYSIS OF AMENDED BILL

Author:	Holden	Analyst:	Scott McFarlane	Bill Number:	AB 132
Related Bills:	None	Telephone:	845-6075	Amended Date:	June 20, 2013
		Attorney:	Patrick Kusiak	Sponsor:	

SUBJECT: The California Hardship Outlays to Protect Mortgagor Equity (HOME) Act

SUMMARY

This bill would provide an exception to the 2½-percent additional tax that is imposed on early distributions from qualified retirement plans.

RECOMMENDATION

No position.

SUMMARY OF AMENDMENTS

The June 20, 2013, amendments would limit the amount of acquisition indebtedness to $1,000,000 ($500,000 in the case of a married individual filing a separate return), and would make a minor technical change. As a result, the "This Bill" section of the department's analysis of the bill as amended March 21, 2013, is revised, as shown below. The amendments that would limit the amount of acquisition indebtedness would result in a minor reduction to the revenue estimate; however, the prior estimated revenue impact of the bill as amended March 21, 2013, remains unchanged due to rounding. The remainder of the department's prior analysis still applies, and the "Effective/Operative Date" and "Economic Impact" sections are restated below for convenience.

EFFECTIVE/OPERATIVE DATE

As a tax levy, this bill would be effective upon enactment and operative for distributions made in taxable years beginning on or after January 1, 2014, and before January 1, 2017.

ANALYSIS

THIS BILL

This bill would provide an exception to the 2½-percent additional tax that is imposed on early distributions from qualified retirement plans for the first $6,000 distributed to an individual who owes more on his or her principal residence than it is worth (or has a spouse that owes more on his or her principal residence than it is worth), and who uses the distribution to pay the interest or principal of acquisition indebtedness of such residence (or to pay as part of a loan modification

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that reduces the principal or interest of acquisition indebtedness of such residence), if all of the following conditions are met:

1. The distribution is made in taxable years beginning on or after January 1, 2014, and before January 1, 2017;
2. The individual uses the distribution to pay acquisition indebtedness interest or principal (either directly or as part of a loan modification) with respect to the principal residence of the individual or the individual's spouse within 60 days after the distribution is received; and
3. The individual (or the individual's spouse) only owns one home, and that home is used as his or her principal residence.

The aggregate amount of distributions eligible for the exception to the 2½-percent additional tax for all three taxable years could not exceed $6,000 and would be limited to the acquisition indebtedness with respect to only one principal residence. Acquisition indebtedness would be limited to $1,000,000 ($500,000 in the case of a married individual filing a separate return) of aggregate indebtedness secured by that principal residence. Additionally, the Franchise Tax Board would be authorized to promulgate regulations as necessary or appropriate to carry out the bill's purpose.

ECONOMIC IMPACT

Revenue Estimate

Estimated Revenue Impact of AB 132 As Amended June 20, 2013 For Taxable Years Beginning On or After January 1, 2014 Assumed Enactment After June 30, 2013 ($ in Millions)		
2013-14	2014-15	2015-16
+ $4.9	+ $4.0	+ $1.8

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

LEGISLATIVE STAFF CONTACT

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