Franchise Tax Board

ANALYSIS OF ORIGINAL BILL

Author:	Morrell	Analyst:	Narinder Dosanjh	Bill Number:	AB 2097
Related Bills:	See Legislative History	Telephone:	845-5275	Introduced Date:	February 20, 2014
		Attorney:	Bruce Langston	Sponsor:	

SUBJECT: Renter Credit/Homeowner's Property Tax Exemption/Increase Credit & Exemption Amount

SUMMARY

This bill would increase the amount of the homeowner's property tax exemption and modify the renter's credit under the Personal Income Tax law.

RECOMMENDATION

No position.

REASON FOR THE BILL

The reason for this bill is to reduce the financial burden on taxpayer's by increasing the property tax exemption and the renter's credit.

EFFECTIVE/OPERATIVE DATE

As a tax levy, this bill would be effective immediately upon enactment and specifically operative beginning with the 2015-2016 lien year for the property tax exemption and the 2015 taxable year for the renter's credit.

ANALYSIS

FEDERAL/STATE LAW

California conforms to federal law and allows real estate taxes as an itemized deduction. An itemized deduction is an eligible expense that individual taxpayers can report on their tax return in order to decrease their taxable income.

Current state law requires a taxpayer who owns real estate not used for business to be assessed a tax on that property at a specified percentage. The county where the property is located generally assesses this tax. The first $7,000 of the full value of a homeowner's dwelling is exempt from that property tax.

Board Position:			Executive Officer	Date
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Current state law allows a nonrefundable credit for qualified renters in the following amounts:

- $60 for single or married filing separately with an adjusted gross income (AGI) of $36,955 or less, and
- $120 for married filing jointly, head of household, or qualified widow or widower with an AGI of $73,910 or less.

Current state law requires the amount of AGI to be adjusted annually for inflation.

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

THIS BILL

This bill would increase the homeowner’s property tax exemption from $7,000 to $20,000 beginning with the lien date for the 2015-2016 fiscal year and require the assessor to index the amount for inflation for each fiscal year thereafter.

Beginning with the 2015 taxable year, this bill would also increase the nonrefundable renter’s credit as follows:

- From $60 to $170 for taxpayers filing single or married filing separately with an AGI of $37,955 or less, and
- From $120 to $340 for married taxpayers filing jointly, head of household, or qualified widow or widower with an AGI of $75,910 or less.

The Franchise Tax Board (FTB) would be required to annually adjust the amount of the renter’s credit for inflation beginning with the 2016 taxable year.

IMPLEMENTATION CONSIDERATIONS

Implementing this bill would require some changes to existing tax forms and instructions and information systems, which could be accomplished during the normal annual update.

LEGISLATIVE HISTORY

AB 293 (Strickland, 2007/2008) would have increased the homeowner’s property tax exemption and increased the renter’s credit amount from $60 to $500 for taxpayers filing single or married filing separately and from $120 to $1,000 for all other filing status types. AB 293 failed to pass the Assembly Revenue and Taxation Committee.

AB 388 (Gaines, 2007/2008) would have increased the amount of the homeowner’s property tax exemption and increased the renter’s credit amount to $215 for single or married filing separately and $430 for married/registered domestic partner filing joint or head of household. AB 388 failed to pass the Assembly Revenue and Taxation Committee.

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 required the FTB to annually adjust the renter's credit amount for inflation for taxable years beginning on or after January 1, 2008. AB 968 failed to pass the Assembly Revenue and Taxation Committee.

AB 972 (Walters, 2007/2008) would have increased the amount of the homeowner's property tax exemption and required the FTB to annually adjust the renters' credit amount for inflation. AB 972 failed to pass the Assembly Revenue and Taxation Committee.

AB 2256 (Duvall, 2007/2008) would have increased the amount of the homeowner's property tax exemption and required the FTB to annually adjust the renter's credit amount for inflation. AB 2256 failed to pass the Assembly Revenue and Taxation Committee.

PROGRAM BACKGROUND/RENTER'S CREDIT[1]

Amount:
In tax year 2010, taxpayers claimed $216 million in credits, reducing their taxes by $160 million.

Number of Tax Returns Affected:
In tax year 2010, credits were allowed on 2 million returns.

Distribution:

Renter's Credit: 2010				
Adjusted Gross Income Class	Returns Claiming Credit (Thousands)	Returns Allowing Credit (Thousands)	Amount of Credit Claimed (Millions)	Amount of Credit Allowed (Millions)
Less Than $10,000	189.0	23.9	$13.6	$0.9
$10,000 to $19,999	543.1	396.9	$37.0	$19.8
$20,000 to $49,999	1,410.2	1,272.4	$126.4	$101.5
$50,000 to $69,999	302.3	297.0	$35.9	$35.1
More Than $69,999	23.0	20.4	$2.7	$2.4
Total	2,467.6	2,010.5	$215.5	$159.6

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.

[1] https://www.ftb.ca.gov/aboutftb/Tax_Expenditure_Report_2010.pdf (Data from the California Income Tax Expenditures Report, pages 48 and 49, prepared by the Franchise Tax Board.

Property Tax Credit and Renter's Credit

Michigan allows renters or lessees of homesteads to claim a credit based on 20 percent of the gross rent paid for taxable years after 1993. A person who rents or leases a homestead, subject to a service charge instead of property taxes, can claim a credit based on 10 percent of the gross rent paid. Only the renter or lessee can claim a credit on property that is rented or leased as a homestead. The maximum credit is $1,200.

New York allows a real property tax credit for residents who have household gross income of $18,000 or less and pay either real property taxes or rent for their residences. If all members of the household are under age 65, the maximum credit is $75. If at least one member of the household is age 65 or older, the maximum credit is $375.

Illinois, Massachusetts, and *Minnesota* do not have a comparable credit. *Florida* does not have a personal income tax.

Because the department lacks property tax expertise 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 homeowners' property tax exemption proposed by this bill

FISCAL IMPACT

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

ECONOMIC IMPACT

Revenue Estimate

Estimated Revenue Impact of AB2097 For Taxable Years Beginning On or After January 1, 2015 Assumed Enactment After June 30, 2014 ($ in Millions)			
	2014-15	2015-16	2016-17
Renter's Credit	$0	- $300	- $200
Homeowner Exemption	$0	+ $ 80	+ $ 50
Total	$0	- $220	- $150

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

SUPPORT/OPPOSITION

Support: None on file.

Opposition: None on file.

ARGUMENTS

Proponents: Some may say that this bill would allow taxpayers to afford and retain their homes, maintain their financial security, and boost the state economy.

Opponents: Some would argue that counties and cities depend on property tax revenues and this bill would adversely affect revenues otherwise needed for critical firefighting and public safety services.

LEGISLATIVE STAFF CONTACT

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