

ANALYSIS OF AMENDED BILL

Franchise Tax Board

Author: Morrell Analyst: Narinder Dosanjh Bill Number: SB 1216
Related Bills: See Legislative History Telephone: 845-5275 Amended Date: April 8, 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 under the Property Taxation Law and modify the renter's credit under the Personal Income Tax law.

RECOMMENDATION

No position.

Summary of Amendments

The April 8, 2014, amendments changed the author, removed language relating to water resources, and replaced them with the provisions discussed in this analysis. This is the department's first analysis of the bill.

REASON FOR THE BILL

The reason for this bill is to reduce the financial burden on taxpayers by increasing the property tax exemption and 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 for taxable years beginning on or after January 1, 2015, for the renter's credit

ANALYSIS

FEDERAL/STATE LAW

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

Board Position:

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Executive Officer

Date

Selvi Stanislaus

5/6/14

Current state property tax law imposes a tax on non-commercial real estate 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 the property tax.

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 used for purposes of claiming the renter's credit to be adjusted annually for inflation. There is no provision under current law for an annual adjustment to the allowable amount of renter's credit.

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.

Additionally, beginning with the 2015 taxable year, this bill would increase the 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 2097 (Morrell, 2013/2014) would increase the homeowner's property tax exemption and increased the renter's credit amount from \$60 to \$170 for taxpayers filing single or married filing separately and from \$120 to \$340 for all other filing status types. AB 2097 is pending hearing before the Assembly Revenue and Taxation Committee.

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.

PROGRAM BACKGROUND

Amount:

In tax year 2011, taxpayers claimed \$178 million in renters' credits, reducing their taxes by \$104 million.

Number of Tax Returns Affected:

In tax year 2011, credits were allowed on 1.5 million returns.

Distribution:

Renters' Credit: 2011				
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	201.0	23.5	\$14.5	\$0.7
\$10,000 to \$19,999	504.8	328.7	\$35.3	\$15.7
\$20,000 to \$49,999	1,100.3	826.6	\$91.4	\$56.0
\$50,000 to \$69,999	275.1	248.1	\$32.5	\$28.5
More Than \$69,999	33.8	30.1	\$4.0	\$3.5
Total	2,115.0	1,457.0	\$177.7	\$104.4

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.

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 SB 1216 As Amended April 8, 2014 Assumed Enactment After June 30, 2014 (\$ in Millions)			
	2014-15	2015-16	2016-17
Renter's Credit	\$0	- \$300	- \$200
Homeowner Exemption	\$0	+ \$ 70	+ \$ 49
Total	\$0	- \$230	- \$151

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 better afford and retain their homes, maintain their financial security, and boost the state's 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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