

**ANALYSIS OF ORIGINAL BILL**

Author: Cannella Analyst: Funmi Obatolu Bill Number: SB 1103  
See Legislative  
Related Bills: History Telephone: 845-5845 Introduced Date: February 17, 2016  
Attorney: Bruce Langston Sponsor \_\_\_\_\_

**SUBJECT:** Renter's Credit/Increase Credit/FTB Annually Adjust Adjusted Gross Income for Inflation

**SUMMARY**

This bill would 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 increase the renter's credit in response to inflation and expand the benefit of the tax credit to more California renters.

**EFFECTIVE/OPERATIVE DATE**

As a tax levy, this bill would be effective immediately upon enactment and specifically operative for taxable years beginning on or after January 1, 2017.

**FEDERAL/STATE LAW**

Federal law lacks a credit comparable to the state's renter's credit

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 \$38,259 or less, and
- \$120 for married filing jointly, head of household, or qualified widow or widower with an AGI of \$76,518.

Current state law requires the renter's credit AGI limitations 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 homeowners' property tax exemption. However, if the Legislature increases the renter's credit, no increase in the amount of benefits to homeowners' property tax exemption is required.

## **THIS BILL**

For taxable years beginning on or after January 1, 2017, this bill would increase the renter's credit as follows:

- From \$120 to \$184 for married taxpayers filing jointly, heads of household, and surviving spouses with an AGI of \$100,000 or less; and
- From \$60 to \$92 for other individuals (taxpayers filing single or married filing separately) with an AGI of \$50,000 or less.

The Franchise Tax Board would be required to annually adjust the modified renter's credit AGI limitation amounts by the change in the Consumer Price Index for each taxable beginning on or after January 1, 2018. In addition, the AGI limitation amounts for married couples filing joint returns, heads of household, and surviving spouses would be twice the AGI limitation amount for other individuals.

## **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 476 (Chang, 2015/2016) would have increased the amount of homeowners' property tax exemption and increased the renter's credit. AB 476 failed to pass the Assembly Revenue and Taxation Committee.

AB 2097 (Morrell, 2013/2014) would have increased the amount of homeowners' property tax exemption and increased the renter's credit. AB 2097 failed to pass the Assembly Revenue and Taxation Committee.

SB 1216 (Morrell, 2013/2014) would have increased the amount of homeowners' property tax exemption and increased the renter's credit. SB 1216 failed to pass out of the Senate by the constitutional deadline.

## **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

**FISCAL IMPACT**

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

**ECONOMIC IMPACT**

This bill would result in the following revenue loss:

Estimated Revenue Impact of SB 1103 As Introduced February 17, 2016 Assumed Enactment After June 30, 2016 (\$ in Millions)		
2016-17	2017-18	2018-19
- \$0.0	- \$130.0	- \$130.0

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

**Revenue Discussion**

Using department renter's credit data, the amount of credit for taxpayers currently claiming the credit was recalculated using the proposed credit amounts and then reduced by the amount currently claimed. Next the amount available to taxpayers in the expanded AGI ranges was calculated. In the expanded AGI ranges the estimate assumes that the share of returns filed claiming the renter's credit would be similar to those who currently claim the credit. The amount of additional credit each taxpayer could use would be limited by their current tax liability. As a result, the revenue loss from the increase in the available renter's credit is estimated to be \$125 million for 2013, \$50 million in additional credit claimed by taxpayers who currently claim the renter's credit, and \$75 million claimed by taxpayers in the expanded AGI ranges. The estimate was then adjusted to reflect changes in the economy overtime, resulting in an estimated \$130 million revenue loss in 2017. The tax year estimates are converted to fiscal year estimates, and then rounded to arrive at the amounts shown in the above table.

**SUPPORT/OPPOSITION**

Support: None provided.

Opposition: None provided.

## **ARGUMENTS**

Proponents: Some may argue that increasing the renter's credit would provide assistance to individuals that could enhance their financial security, and boost the state's economy.

Opponents: Some may argue that increasing the renter's credit could discourage homeownership and encourage landlords to increase rents.

## **LEGISLATIVE STAFF CONTACT**

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