

ANALYSIS OF ORIGINAL BILL

Franchise Tax Board

Author: Scott Analyst: Darrine Distefano Bill Number: AB 1804

Related Bills: See Legislative History Telephone: 845-6458 Introduced Date: 01/31/2000

Attorney: Patrick Kusiak Sponsor: _____

SUBJECT: Renters' Credit/Increase Adjusted Gross Income Amounts

SUMMARY

This bill would increase the adjusted gross income (AGI) limitation amount for renters' credit from \$50,000 to \$60,000 for married couples filing joint returns, heads of household and surviving spouses, and from \$25,000 to \$30,000 for other individuals.

EFFECTIVE DATE

As a tax levy, this bill would apply to taxable years beginning on or after January 1, 2000.

LEGISLATIVE HISTORY

AB 760 (Stats. 1993, Ch. 62), AB 2389 (Stats. 1994, Ch. 144), SB 1794 (Stats. 1996, Ch. 192), and AB 1592 (Stats. 1997, Ch. 292) all suspended the Renters' Credit; AB 2797 (Stats. 1998, Ch. 322) reinstated Renters' Credit as nonrefundable beginning 1/1/98; SB 94 (Stats. 1999, Ch. 931) deleted an obsolete provision within the Renters' Credit.

SPECIFIC FINDINGS

Current state law allows qualifying renters a nonrefundable credit of \$60 or \$120 depending on filing status (single or married). The amount of the credit is not related to the amount of rent paid. The refundable renters' credit was suspended for the 1993 through 1997 tax years, but was reinstated as a nonrefundable credit effective January 1, 1998, for the 1998 taxable year.

Current state law allows a credit in the amount of \$120 for married filing joint returns, heads of household and surviving spouses if AGI is \$50,000 (currently \$51,300 as indexed for inflation) or less, and \$60 for other individuals (single or married filing separate) if AGI is \$25,000 (currently \$25,650 as indexed for inflation) or less.

Current state law defines a "qualified renter" as an individual who:

- (1) is a California resident, and
- (2) rented and occupied California premises constituting his or her principal place of residence for at least 50% of the taxable year.

Board Position:

| | | |
|----------|-----------|-----------------|
| _____ S | _____ NA | _____ NP |
| _____ SA | _____ O | _____ NAR |
| _____ N | _____ OUA | _____ X PENDING |

Department Director

Date

Alan Hunter for GHG

3/10/00

The term "qualified renter" does not include an individual:

- (1) who for more than 50% of the taxable year rented and occupied premises that were exempt from property taxes (subject to certain exceptions);
- (2) whose principal place of residence for more than 50% of the taxable year is with any other person who claimed that individual as a dependent for income tax purposes; or
- (3) who has been granted or whose spouse has been allowed the homeowners' property tax exemption during the taxable year, as specified.

In current state law a "resident" is statutorily defined as:

- (1) Every individual who is in this state for other than a temporary or transitory purpose; and
- (2) Every individual domiciled in this state who is outside the state for a temporary or transitory purpose.

In current state law, any qualified renter who is a nonresident for a portion of the taxable year is allowed 1/12 of the renter's credit for each full month that the individual resided in the state for the taxable year, once the requirement of renting in California for more than 50% of the taxable year has been met.

Current state law requires the Franchise Tax Board (FTB) to recompute the AGI amounts annually for inflation. The AGI amounts for the 1998 taxable year were \$50,000 and \$25,000 and have been indexed for inflation to \$51,300 and \$25,650 for the 1999 taxable year.

This bill would increase the AGI amount for renters' credit to \$60,000 for married couples filing joint returns, heads of household and surviving spouses and to \$30,000 for other individuals for the 2000 taxable year.

Implementation Considerations

Implementation of this bill would occur during the department's normal annual system update.

Technical Considerations

The existing statute requires the amounts to be indexed annually for inflation, beginning in 1999. Therefore, the new amounts of \$60,000 and \$30,000 would have to be indexed for 2000. If the author intends the amounts of \$60,000 and \$30,000 to be the actual figures for 2000, the bill needs to be amended to specify that the indexing would begin in 2001.

FISCAL IMPACT

Departmental Costs

This bill is not expected to impact the department's costs.

Tax Revenue Estimate

This proposal is estimated to impact PIT revenue as shown in the following table.

| Fiscal Year Cash Flow Taxable Years Beginning on or after January 1, 2000 Enactment Assumed After June 30, 2000 \$ Millions* | | |
|--|---------|---------|
| 2000-01 | 2001-02 | 2002-03 |
| -\$3 | -\$3 | -\$3 |

* Rounded to the nearest half-million.

This analysis does not consider the possible changes in employment, personal income, or gross state product that could result from this measure.

Tax Revenue Discussion

The revenue impact for this bill will be determined by the number of additional renters who would qualify for the nonrefundable credit due to the higher income phase-out and the amount of credit that can be applied against available tax liabilities.

These estimates were based on actual 1998 state data, adjusted by the recent CPI projections from the Department of Finance to reflect year 2000 adjustments under current law.

BOARD POSITION

Pending.