

ANALYSIS OF AMENDED BILL

Franchise Tax Board

Author: Honda Analyst: Marion Mann DeJong Bill Number: AB 2360

Related Bills: _____ Telephone: 845-6979 Amended Date: 04/03/2000

Attorney: Patrick Kusiak Sponsor: _____

SUBJECT: Renter Credit/Teachers & Safety Officers

SUMMARY OF BILL

This bill would create an additional \$500 renter's credit for specified teachers and public safety officers.

SUMMARY OF AMENDMENT

The April 3, 2000, amendments deleted the provisions of the bill as introduced (relating to interest netting) and replaced them with the renter's credit provision discussed in this analysis.

EFFECTIVE DATE

As a tax levy, this bill would become effective immediately upon enactment and would be operative for taxable years beginning on or after January 1, 2000.

LEGISLATIVE HISTORY/BACKGROUND

Since the inception of the Renter's Credit program in 1972, the amount of renter's credit, at various times, has been increased, decreased, and phased-out based on a taxpayer's income. The credit is not related to the amount of rent paid. The renter's credit was suspended for the 1993 through 1997 tax years, but by statute was reinstated effective January 1, 1998, for the 1998 taxable year.

AB 2797 (Stats. 1998, Ch. 322) made the renter's credit nonrefundable and added an adjusted gross income (AGI) limitation. SB 94 (Stats. 1999, Ch. 931) deleted obsolete refund provisions from the nonrefundable renter's credit.

SPECIFIC FINDINGS

Current state law defines a "resident" 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.

Current state law allows qualifying renters a nonrefundable credit of \$120 for married filing joint returns, heads of household and surviving spouses if AGI is \$50,000 or less, and \$60 for other individuals (single or married for separate) if AGI is \$25,000 or less. The AGI limitation amounts are adjusted annually for inflation. For 1999, the AGI limits were \$51,300 and \$25,650, respectively.

Board Position:

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| _____ N | _____ OUA | _____ X PENDING |

Department Director

Date

Gerald H. Goldberg

4/21/00

A "qualified renter" is an individual who (1) is a California resident, and (2) rented a principal residence in California for at least 50% of the taxable year. An individual is not a "qualified renter" if any of the following conditions apply:

- Ⓟ The property rented is exempt from property taxes. This does not apply if the taxpayer, landlord, or owner pays possessory interest taxes or payments equivalent to property taxes.
- Ⓟ Someone living with the individual claims the individual as a dependent for income tax purposes.
- Ⓟ Either spouse has been granted the homeowners' property tax exemption during the taxable year. This does not apply to a spouse who is not granted the homeowner's exemption, if both maintain separate residences for the entire year.

Any qualified renter who is a nonresident for part 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.

This bill would create a \$500 renter's credit for "qualified renters." This credit would provide a different definition of qualified renter and would not have an AGI limitation as under current law.

This bill would define a "qualified renter" as an individual who is either an entry-level teacher for students in grades kindergarten to 12, inclusive, or a public safety officer who:

- Ⓟ is a California resident, and
- Ⓟ rented a principal residence in California for at least 50% of the taxable year.

This bill would not limit the credit if the individual's AGI exceeded certain amounts. However, the bill would provide (unnecessarily) for the annual indexing of AGI limitations.

Policy Considerations

This bill would raise the following policy considerations:

- Ⓟ This bill would allow an individual to claim both the existing renter's credit and the teacher/public safety officer renter's credit created by this bill.
- Ⓟ Although the bill would require the teacher or public safety officer to rent a residence for 50% of the year, the bill would not require the individual to be a teacher or public safety officer for 50% of the year.
- Ⓟ The bill would not require the teacher or public safety officer to be currently employed as an entry-level teacher or public safety officer. Further the bill would not require the employment to be within California.

Implementation Considerations

The bill does not define "entry-level teacher" or "public safety officer." Undefined terms can lead to disputes between taxpayers and the department.

Technical Considerations

Subdivision (h) would provide for the indexing of AGI limitation amounts. This bill does not have AGI limitations. If the author does not add an AGI limitation to this bill, subdivision (h) should be deleted.

FISCAL IMPACT

Departmental Costs

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

Tax Revenue Estimate

Based on the data and assumptions below, revenue losses are estimated as follows:

| Revenue Impact of AB 2360 | | |
|--------------------------------------|---------|---------|
| Amended April 3, 2000 | | |
| For Taxable Years Beginning 1/1/2000 | | |
| Assumed Enactment After 6/30/2000 | | |
| (In Millions) | | |
| 2000-01 | 2001-02 | 2002-03 |
| -\$36 | -\$37 | -\$38 |

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

Tax Revenue Discussion

The impact of this bill would depend upon the number of individuals claiming the credit and the average credit applied against tax liabilities.

The estimated revenue losses were determined in the following steps:

First, assumptions were made that (1) qualifying individuals (i.e., entry-level teachers and public safety officers) must rent and be employed in California; (2) the definition of an entry-level teacher is one that is employed less than three years in grades K-12, and (3) the definition of a public safety officer is based on the definition of a peace officer as defined in Sections 830-832.16 of the California Penal Code.

Second, the total number of individuals qualifying for the credit was based on information from the 1996 U.S. Statistical Abstract and the 1997 California Statistical Abstract. According to these sources, it is estimated that approximately 33,000 entry-level teachers and 270,000 public safety officers, as defined above, would be employed in California in the year 2000. This yields approximately 305,000 entry-level teachers and public safety officers. This number was adjusted by 10% to account for attrition (305,000 x 1.1 = 335,000).

The next step was to determine the number of qualified renters. According to the 1990 Census data, approximately 44% of Californians rent. Assumptions were made that distribution of entry-level teachers and public safety officers who rent would not be materially different than the state as a whole (44%). This yields approximately 148,000 qualified renters (335,000 x 44%).

The last step was to determine, of the number of qualified renters, how many would have a tax liability and the amount of the average applied credit. Based on information from the department's personal income tax model, it is estimated that 67% of qualified renters (148,000 x 67% = 99,000) would have a tax liability with an average applied credit of approximately \$365.

In summary, it is estimated that 99,000 taxpayers would qualify for an average applied credit of \$365 for a revenue loss of \$36 million in tax year 2000.

BOARD POSITION

Pending.