

ANALYSIS OF AMENDED BILL

Author:	Chang, et al.	Analyst:	Narinder Dosanjh	Bill Number:	AB 476
	See Legislative			Introduced Date:	February 23, 2015
Related Bills:	History	Telephone:	845-5275	Amended Date:	March 19 & 25, 2015
		Attorney:	Bruce Langston	Sponsor	

SUBJECT:	Renter Credit/Homeowners' Property Tax Exemption/Increase Credit & Exemption Amount
-----------------	---

SUMMARY

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

RECOMMENDATION

No position.

Summary of Amendments

As introduced on February 23, 2015, this bill would increase the homeowners' property tax exemption and modify the renters' credit, as discussed in this analysis.

The March 19, 2015, amendments deleted and added co-authors and made non-substantive technical amendments.

The March 25, 2015, amendments modified language related to reimbursements of state mandated costs to local agencies. These amendments do not impact the department's programs, operations, or state tax revenues.

This is the department's first analysis of this 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 the renters' credit.

EFFECTIVE/OPERATIVE DATE

As a tax levy, this bill would be effective immediately upon enactment and specifically operative beginning with the 2016-2017 lien year for the property tax exemption and for taxable years beginning on or after January 1, 2016 for the renters' credit.

Board Position:	Executive Officer	Date																					
<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 15%; border-bottom: 1px solid black;">_____</td> <td style="width: 15%; border-bottom: 1px solid black;">S</td> <td style="width: 15%; border-bottom: 1px solid black;">_____</td> <td style="width: 15%; border-bottom: 1px solid black;">NA</td> <td style="width: 15%; border-bottom: 1px solid black;">_____</td> <td style="width: 15%; border-bottom: 1px solid black;">X</td> <td style="width: 15%; border-bottom: 1px solid black;">NP</td> </tr> <tr> <td style="border-bottom: 1px solid black;">_____</td> <td style="border-bottom: 1px solid black;">SA</td> <td style="border-bottom: 1px solid black;">_____</td> <td style="border-bottom: 1px solid black;">O</td> <td style="border-bottom: 1px solid black;">_____</td> <td style="border-bottom: 1px solid black;">NAR</td> <td style="border-bottom: 1px solid black;">_____</td> </tr> <tr> <td style="border-bottom: 1px solid black;">_____</td> <td style="border-bottom: 1px solid black;">N</td> <td style="border-bottom: 1px solid black;">_____</td> <td style="border-bottom: 1px solid black;">OUA</td> <td style="border-bottom: 1px solid black;">_____</td> <td style="border-bottom: 1px solid black;">_____</td> <td style="border-bottom: 1px solid black;">_____</td> </tr> </table>	_____	S	_____	NA	_____	X	NP	_____	SA	_____	O	_____	NAR	_____	_____	N	_____	OUA	_____	_____	_____	Selvi Stanislaus	4/23/15
_____	S	_____	NA	_____	X	NP																	
_____	SA	_____	O	_____	NAR	_____																	
_____	N	_____	OUA	_____	_____	_____																	

FEDERAL/STATE LAW

Homeowners' Property Tax Exemption

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 homeowners' dwelling is exempt from that property tax.

Renters' 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 \$37,768 or less, and
- \$120 for married filing jointly, head of household, or qualified widow or widower with an AGI of \$75,536 or less.

Current state law requires the amount of AGI used for purposes of claiming the renters' credit to be adjusted annually for inflation. There is no provision under current law for an annual adjustment to the allowable amount of renters' 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 homeowners' property tax exemption.

THIS BILL

Homeowners' Property Tax Exemption

This bill would increase the homeowners' property tax exemption from \$7,000 to \$25,000 beginning with the lien date for the 2016-2017 fiscal year; reducing the property tax paid for purposes of the income tax deduction.

Beginning on the lien date for the 2017-18 fiscal year and each fiscal year thereafter, the assessor would adjust the exemption amount of the prior fiscal year by the percentage change in the House Price Index for California.

Renters' Credit

Additionally, beginning with the 2016 taxable year, this bill would increase the renters' credit as follows:

- From \$60 to \$214 for taxpayers filing single or married filing separately with an AGI of \$39,182 or less, and
- From \$120 to \$428 for married taxpayers filing jointly, head of household, or qualified widow or widower with an AGI of \$78,363 or less.

The Franchise Tax Board (FTB) would be required to annually adjust the amount of the renters' credit by the Consumer Price Index beginning with the 2017 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) similar to this bill, would have increased the homeowners' property tax exemption and increased the renters' credit amount. AB 2097 failed to pass the Assembly Revenue and Taxation Committee.

SB 1216 (Morrell, 2013/2014) similar to this bill, would have increased the homeowners' property tax exemption and increased the renters' credit amount. 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.

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

This bill would result in the following overall revenue loss:

Estimated Revenue Impact of AB 476* As Amended March 25, 2015 Assumed Enactment After June 30, 2015 (\$ in Millions)			
Provision	2015-16	2016-17	2017-18
Homeowners' Exemption	\$0	+ \$90	+ \$ 60
Renters' Credit	\$0	- \$430	- \$280
Total	\$0	- \$340	- \$220

*This estimate does not include reimbursement for any costs to local agencies and school districts attributable to this bill.

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

Revenue Discussion

This bill would increase the homeowner's exemption and the renter's credit.

Homeowners' Property Tax Exemption

According to the Board of Equalization, the increase in the homeowner's exemption results in an estimated property tax savings of approximately \$1.1 billion for taxable year 2016, meaning taxpayers would report \$1.1 billion less in property taxes as itemized deductions on their California tax return, increasing their state taxable income. Applying a 5.25 percent marginal tax rate to the \$1.1 billion would result in an estimated \$57 million revenue gain for taxable year 2016.

Renters' Credit

For tax year 2012, \$93 million of renters' credits were allowed on personal income tax returns. This amount was grown¹ to \$107 million to arrive at the estimated amount of credit for taxable year 2016. The \$107 million was multiplied by the proposed overall net tax credit increase of 252 percent to arrive at the estimated \$270 revenue loss for taxable year 2016.

The tax year estimates are converted to fiscal years and then rounded to arrive at the estimates shown in the table above.

SUPPORT/OPPOSITION

Support: None provided.

Opposition: None provided.

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

Narinder Dosanjh
Legislative Analyst, FTB
(916) 845-5275
narinder.dosanjh@ftb.ca.gov

Jame Eiserman
Revenue Manager, FTB
(916) 845-7484
jame.eiserman@ftb.ca.gov

Gail Hall
Legislative Director, FTB
(916) 845-6333
gail.hall@ftb.ca.gov

¹ Indexed using Department of Finance forecasts.