

ANALYSIS OF AMENDED BILL

Author: Lackey, et al Analyst: Funmi Obatolu Bill Number: AB 2694
See Legislative
Related Bills: History Telephone: 845-5845 Introduced Date: February 19, 2016
Amended Dates: March 28, 2016 & April 6, 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.

Summary of Amendments

This bill as introduced on February 19, 2016, would modify the Renter's Credit. The March 28, 2016, amendments added coauthors, and the April 6, 2016, amendments would revise the adjusted gross income (AGI) indexing provision.

This is the department's first analysis of the bill.

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, 2016.

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 for tax year 2015:

- \$60 for single or married filing separately with an 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 or less.

Current state law requires the AGI limits 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 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, 2016, this bill would increase the Renter's Credit as follows:

- From \$120 to \$240 for married taxpayers filing jointly, head of household, or qualified widow or widower with an AGI of \$100,000 or less; and
- From \$60 to \$120 for 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, 2017. 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

SB 1103 (Cannella, 2015/2016) is similar to AB 2694 and would modify the Renter's Credit. SB 1103 is currently in the Senate Governance and Finance Committee.

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 *Illinois, Florida 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. 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 cost.

ECONOMIC IMPACT

This bill would result in the following revenue loss:

Estimated Revenue Impact of AB 2694 As Amended April 6, 2016 Assumed Enactment After June 30, 2016 (\$ in Millions)		
2016-17	2017-18	2018-19
- \$200.0	- \$210.0	- \$210.0

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 that 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

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\$180 million for 2013, \$100 million in additional credit claimed by taxpayers who currently claim the Renter's Credit and \$80 million claimed by taxpayers in the expanded AGI ranges. The estimate was then adjusted to reflect changes in the economy over time, resulting in an estimated \$200 million revenue loss in 2016.

The tax year estimates were then converted to fiscal year estimates, and rounded to arrive at the estimates 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 may discourage homeownership and encourage landlords to increase rents.

LEGISLATIVE STAFF CONTACT

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