Franchise Tax Board **ANALYSIS OF ORIGINAL BILL**

Author:	Chen	Analyst:	Funmi Obatolu	Bill Number:	AB1100
Related Bills:	See Legislative History	Telephone:	845-5845	Introduced Date:	February 17, 2017
		Attorney:	Bruce Langston	Sponsor:	

SUBJECT: Renter's Credit/Homeowner's Property Tax Exemption/ Increase Credit and Exemption Amount

SUMMARY

This bill would increase the amount of the homeowners' property tax exemption and 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 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 2018-2019 lien year for the property tax exemption and for taxable years beginning on or after January 1, 2018, for the Renter's Credit.

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

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 2016:

- $120 for spouses filing joint returns, heads of household, and surviving spouses, with an adjusted gross income (AGI) of $78,125 or less.

- $60 for all other individuals with an adjusted gross income (AGI) of $39,062 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 credit amount.
- 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 the homeowners' property tax exemption is required.

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 2018-2019 fiscal year, thus reducing the property tax paid for purposes of the income tax deduction.

Beginning on the lien date for the 2019-20 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.

Renter's Credit

For taxable years beginning on or after January 1, 2018, this bill would increase the amount of Renter's Credit as follows:

- From $120 to $428 for spouses filing joint returns, heads of household, and surviving spouses with an AGI of $ 82,090 (estimated) or less; and
- From $60 to $214 for other individual taxpayers with an AGI of $41,045 (estimated) 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 2019 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 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 2694 (Lackey, et al., 2015/2016) would have increased the Renter's Credit and temporarily eliminated the AGI thresholds for 2016-2019. AB 2694 failed to pass out of the Assembly Appropriations Committee.

SB 1103 (Cannella, 2015/2016) would have increased the Renter's Credit. SB 1103 failed to pass out of the Senate Appropriations 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.

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.

OTHER STATES' INFORMATION

The states surveyed include *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. 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.

FISCAL IMPACT

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

ECONOMIC IMPACT

Revenue Estimate

This bill would result in the following revenue impact:

Estimated Revenue Impact of AB 1100* As Introduced February 17, 2017 Assumed Enactment After June 30, 2017 ($ in Millions)			
	2017-18	2018-19	2019-20
Homeowners' Exemption	$0	+ $30	+ $60
Renter's Credit	$0	- $220	- $230
Total	$0	- $190	- $170

*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 billion for taxable year 2016. Based on this savings, FTB estimates that itemizing taxpayers would report $900 million less in property taxes as itemized deductions on their California tax return, increasing their state taxable income. The estimate was then adjusted to reflect changes in the economy over time. Applying a 6 percent tax rate to the $900 million would result in an estimated revenue gain of $30 million for taxable year 2018 and $60 million for taxable year 2019.

Renter's Credit

Using departmental 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 $190 million in 2017. The estimate was then adjusted to reflect changes in the economy over time, resulting in an estimated $210 million revenue loss in 2017.

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

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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. Additionally increase in the homeowner's property tax exemption amount could adversely affect revenues otherwise needed for critical firefighting and public safety services.

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