

## Franchise Tax Board

## ANALYSIS OF AMENDED BILL

Author: Bonta Analyst: Funmi Obatolu Bill Number: AB 1582  
Related Bills: See Legislative History Telephone: 845-5845 Amended Date: March 29, 2017  
Attorney: Bruce Langston Sponsor: \_\_\_\_\_

**SUBJECT:** Renter's Credit/Increase Adjusted Gross Income Limitation for Taxpayers Living in High-Cost Areas

### SUMMARY

This bill would modify the adjusted gross income (AGI) limitation for purposes of determining the Renter's Credit.

### RECOMMENDATION – NO POSITION

#### Summary of Amendments

The March 29, 2017 amendments removed the bill's provision that would have made a non-substantive change to the Revenue and Taxation Code, and replaced it with the provisions discussed in this analysis. This is the department's first analysis of the bill.

### REASON FOR THE BILL

The reason for this bill is to provide some financial relief for families struggling with high housing costs in this state.

### 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, 2017.

### STATE LAW

Current state law allows qualified renters a nonrefundable credit in the following amounts for tax year 2016:

- \$60 for single or married filing separately with an AGI of \$39,062 or less, and
- \$120 for married filing jointly, head of household, or qualified widow or widower with an AGI of \$78,125 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.

### THIS BILL

For taxable years beginning on or after January 1, 2017, this bill would apply an unspecified AGI limit for purposes of determining eligibility for the Renter's Credit on taxpayers living in a "high-cost area."

“High-cost area” would mean a geographic region of the state where the fair market rent, as calculated by the United States Department of Housing and Urban Development, is greater than 10 percent of the average statewide fair market rent.

The Franchise Tax Board would be required to annually adjust the unspecified AGI limitation amount by the change in the California Consumer Price Index for each taxable year beginning on or after January 1, 2018.

### **IMPLEMENTATION CONSIDERATIONS**

The department has identified the following implementation concerns. Department staff is available to work with the author’s office to resolve these and other concerns that may be identified.

This bill would apply an unspecified AGI limit for purposes of determining eligibility for the Renter’s Credit. The department is unable to implement an unspecified AGI amount. It is recommended that the bill be amended to specify the increased AGI limit.

The definition of “high-cost area” lacks clarity and could result in disputes between the taxpayer and the department. For clarity and ease of administration, the author may wish to amend the bill to require a state agency with relevant expertise to designate or otherwise certify high-cost areas within the state for purposes of applying the bill’s AGI limit provisions.

### **TECHNICAL CONSIDERATIONS\***

For clarity in re-computing the AGI for inflation, paragraph (4) of subdivision (j) should be amended to read:

In computing the amounts pursuant to this subdivision, the amounts provided in subparagraph (A) of paragraph (1) of subdivision (a) shall be twice the respective amount provided in subparagraph (B) of paragraph (1) of subdivision (a).

### **LEGISLATIVE HISTORY**

AB 181 (Lackey, et al., 2017/2018) would increase the amount of the Renter’s Credit. AB 181 is currently pending before the Assembly Revenue and Taxation 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 out of 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 tax year 2016 through 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.

## **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**

The department's costs to implement this bill have yet to be determined. As the bill moves through the legislative process and implementation concerns are resolved, costs will be identified and an appropriation will be requested, if necessary.

## **ECONOMIC IMPACT**

### **Revenue Estimate:**

The FTB is unable to estimate the revenue impact until the implementation concerns discussed above have been resolved.

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

## **SUPPORT/OPPOSITION**

Support: None provided.

Opposition: None provided.

## **ARGUMENTS**

Proponents: Some may argue that modifying the AGI limit for high-cost areas would provide some financial relief to renters that otherwise would be ineligible for the Renter's Credit.

Opponents: Some may argue that the additional relief this bill would provide is inadequate in the state's current rental housing market.

**LEGISLATIVE STAFF CONTACT**

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