

Author: Bonta Analyst: Funmi Obatolu Bill Number: AB 1582  
Related Bills: See Prior Telephone: 845-5845 Amended Date May 9, 2017  
Analysis Attorney: Bruce Langston Sponsor: \_\_\_\_\_

**SUBJECT:** Renter's Credit/Increase Amount of Credit and Adjusted Gross Income (AGI) Limitation

## **SUMMARY**

This bill would increase the amount of the Renter's Credit and the AGI limitations for taxpayers living in high-cost areas

## **RECOMMENDATION – NO POSITION**

## **SUMMARY OF AMENDMENTS**

The May 9, 2017, amendments increased the Renter's credit amounts, and modified the AGI limitation amounts for taxpayers living in high-cost areas. The amendments resolved one of the implementation considerations discussed in the department's analysis of the bill as amended on March 29, 2017. As a result of the amendments, the "This Bill," "Implementation Considerations," and "Economic Impact" sections have been revised. The remainder of the department's analysis of the bill as amended March 29, 2017, still applies. The "Fiscal Impact" and "Technical Considerations" sections have been restated for convenience.

## **THIS BILL**

For taxable years beginning on or after January 1, 2017, this bill would modify the Renter's Credit as follows:

- From \$120 to \$360 for spouses filing joint returns, heads of household, and surviving spouses with an AGI of \$50,000<sup>1</sup> or less.
- From \$60 to \$180 for other individuals with an AGI of \$25,000<sup>2</sup> or less.

For taxpayers living in a high cost area, the Renter's credit is as follows:

- \$360 for spouses filing joint returns, heads of household, and surviving spouses with an AGI of \$97,656 or less.
- \$180 for other individuals with AGI of \$48,828 or less.

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<sup>1</sup> Adjusted to \$78,125 for tax year 2016.

<sup>2</sup> Adjusted to \$39,026 for tax year 2016.

“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 (FTB) would be required to annually adjust the 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 concern. Department staff is available to work with the author’s office to resolve this and other concerns that may be identified.

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 for each tax year 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).

### **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**

This bill would result in the following revenue loss:

Estimated Revenue Impact of AB 1582 As Amended May 9, 2017 Assumed Enactment After June 30, 2017 (\$ in Millions)		
2017-18	2018-19	2019-20
- \$340	- \$350	- \$370

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

## Revenue Discussion

Using FTB 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 and the increase in the AGI ranges is estimated to be \$300 million in 2014. The estimate was then adjusted to reflect changes in the economy over time, resulting in an estimated \$340 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.

## LEGISLATIVE STAFF CONTACT

Funmi Obatolu  
Legislative Analyst, FTB  
(916) 845-5845  
[funmi.obatolu@ftb.ca.gov](mailto:funmi.obatolu@ftb.ca.gov)

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

Diane Deatherage  
Legislative Director, FTB  
(916) 845-6333  
[diane.deatherage@ftb.ca.gov](mailto:diane.deatherage@ftb.ca.gov)