



Analysis of Original Bill

Author: Glazer, et al.

Sponsor: Author

Bill Number: SB 1182

Analyst: Janet Jennings

Phone: (916) 845-3495

Introduced: February 14, 2018

Attorney: Bruce Langston

Related Bills: See Legislative
History

Subject: Renter's Credit/Increase Credit Beginning On or After January 1, 2018

Summary

This bill would, contingent upon an appropriation, increase the amount of the Renter's Credit under the Personal Income Tax Law (PITL).

Recommendation – No position.

Reason for the Bill

The reason for this bill is to provide financial relief for low- and middle-income families.

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, 2018, contingent upon the appropriation of moneys to the Franchise Tax Board (FTB) for the costs to administer the credit increase.

Federal/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 2017:

- \$60 for single or married filing separately with an adjusted gross income (AGI) of \$40,078 or less, and
- \$120 for married filing jointly, head of household, or qualified widow or widower with an AGI of \$80,156 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, 2018, contingent upon a specific appropriation in any budget measure for the taxable year to the FTB for its administrative costs, this bill would increase the amount of Renter's Credit regardless of a taxpayer's AGI to:

- \$240 for spouses filing joint returns, heads of household, and surviving spouses; and
- \$120 for other individual taxpayers.

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.

It is unclear if the author intended, upon appropriation, for the Renter's Credit amounts to be increased with no AGI limitation or inflation indexing. If this is not the author's intent, the bill should be amended.

It is unclear that the department would incur the need for additional resources to implement a change in the amount of Renter's Credit as the department currently implements the Renter's Credit. If the author's intent is that the appropriation should pay for the increased Renter's Credit instead of the general fund, this bill should be amended.

It is unclear for which tax year a Renter's Credit would apply following an appropriation that would be included in the state budget that is generally signed in June and is prepared on a fiscal year (July 1 – June 30) basis.

Legislative History

AB 1100 (Chen, et al. 2017/2018) would have increased the amount of the homeowners' property tax exemption and modify the Renter's Credit under the PITL. AB 1100 failed to pass out of the Assembly Appropriations Committee.

AB 181 (Lackey, et al. 2017/2018) would have modified the Renter's Credit under the PITL. AB 181 failed to pass out of the Assembly Appropriations Committee.

AB 2694 (Lackey, et al. 2015/2016) would have increased the Renter's Credit and temporarily eliminated the AGI thresholds. AB 2694 failed to pass out of the Assembly Appropriations 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.

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

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

Economic Impact

Revenue Estimate

This bill would result in the following revenue loss:

Estimated Revenue Impact of SB 1182 as Introduced February 14, 2018
For Taxable Years Beginning On or After January 1, 2018
Assumed Enactment after June 30, 2018

(\$ in Millions)

Fiscal Year	Revenue*
2018-2019	- \$420.0
2019-2020	- \$440.0
2020-2021	- \$460.0

*Estimate assumes a specific appropriation of funds to the FTB would be enacted each year for its costs to administrate the increased credit.

This analysis does not account for changes in employment, personal income, or gross state product that could result from this bill or for the net final payment method of accrual.

Revenue Discussion

Based on department Renter's Credit data and the FTB's Personal Income Tax micro-simulation model, the amount of the renter's 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 that could claim the credit as a result of the elimination of the AGI limitation was calculated. In the expanded AGI ranges, the estimate assumes that the amount 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 elimination of the AGI limitations is estimated to be \$370 million in 2015 (\$85 million in additional credit claimed by taxpayers who currently claim the Renter's Credit and \$285 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 revenue loss of \$420 million in taxable year 2018.

The tax-year estimates are converted to fiscal-year estimates, and then rounded to arrive at the figures 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

Janet Jennings
Legislative Analyst, FTB
(916) 845-3495
janet.jennings@ftb.ca.gov

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

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