STATE OF CALIFORNIA
Franchise Tax Board

Analysis of Original Bill

Author: Voepel	Sponsor:	Bill Number: AB 282
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Attorney: Shane Hofeling	Related Bills: See Legislative History	

Subject: Qualified Principal Residence Credit

Summary

This bill would, under the Personal Income Tax Law (PITL), allow a tax credit to a taxpayer that purchases a qualified principal residence.

Recommendation – No position.

Reason for the Bill

The reason for the bill is to encourage Californians to purchase new homes by offering a tax credit.

Effective/Operative Date

As a tax levy, this bill would be effective immediately upon enactment and would be specifically operative for taxable years beginning on or after January 1, 2022, and before January 1, 2025.

Federal/State Law

Existing state and federal laws provide various tax credits designed to provide tax relief for taxpayers who incur certain expenses (e.g., child adoption) or to influence behavior, including business practices and decisions (e.g., research credits or hiring credits). These credits generally are designed to provide incentives for taxpayers to perform various actions or activities that they may not otherwise undertake.

Neither federal nor state law allow a credit similar to the one that would be provided by this bill.

This Bill

This bill would, under the PITL, for taxable years beginning on or after January 1, 2022, and before January 1, 2025, allow a credit equal to $1,000 to a taxpayer that purchases a qualified principal residence during the taxable year.

The bill would define a "qualified principal residence" as a single-family residence (whether detached or attached) that:

- Is completed as new construction on or after January 1, 2021, and before January 1, 2025,
- Is purchased to be the principal residence of the taxpayer[1], and
- Has never been occupied.

Unused credits could be carried over to taxable years beginning before January 1, 2027, or until exhausted, whichever occurs first.

This credit would be repealed by its own terms on December 1, 2025.

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.

Because the bill fails to specify otherwise, the credit would apply to an otherwise qualified principal residence located outside of California. If this is inconsistent with the author's intent, the bill should be amended.

Technical Considerations

The bill uses the phrase "purchase a quailed principal residence during the taxable year in an amount equal to one thousand dollars." For clarity and grammatical accuracy, it is recommended that a comma be inserted after "taxable year."

Legislative History

AB 155 (Voepel, 2019/2020) would allow a credit of $1,000 to a taxpayer that builds a new primary residence. AB 155 is currently before the Assembly Revenue and Taxation Committee.

[1] Within the meaning of Internal Revenue Code Section 121.

Other States' Information

Review of *Illinois, Florida, Massachusetts, Michigan*, *Minnesota*, and *New York* laws found no comparable tax credits. These states were selected and reviewed due to their similarities to California's economy, business entity types, and tax laws.

Fiscal Impact

This bill would impact the department's programming, printing, and processing costs. As the bill continues to move through the legislative process, costs will be identified.

Economic Impact

Revenue Estimate

This bill would result in the following revenue impact:

Estimated Revenue Impact of AB 282 as Introduced January 28, 2019
Assumed Enactment after June 30, 2019

($ in Millions)

Fiscal Year	Revenue
2019-2020	- $0
2020-2021	- $0
2021-2022	- $60
2022-2023	- $120

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 building permit data from the United States Census Bureau, there would be approximately 180,000 new attached or detached single-family residences sold in California in 2022. Research indicates that approximately 55 percent, or 100,000, would be purchased as a qualified principal residence. The number of qualified taxpayers is increased by 70 percent to account for multiple homeowners each claiming the credit. Using a credit rate of $1,000 per taxpayer results in an estimated $170 million in credit generated. These calculations were repeated for non-resident taxpayers resulting in an addition $5 million in credit generated, for a total of $175 million in taxable year 2022.

This estimate does not include any adjustments that would account for issues related to self-certification. It is estimated that 80 percent of taxpayer would have a tax liability to offset with the credit and of those 70 percent would use the credit in the year generated and the remaining would be used over the subsequent four years. This results in an estimated revenue loss of $100 million in the taxable year 2022 and would increase to $200 million by taxable year 2025.

The tax year estimates are converted to fiscal year revenue estimates and rounded to arrive at the amounts reflected in the above table.

Policy Concerns

This bill would provide carryover rules for taxable years beginning before January 1, 2027. This would allow taxpayers that purchased homes in earlier years to have a longer carryover than those that purchased homes later. Thus, this bill would provide differing treatment based solely when a home was purchased.

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