



Summary Analysis of Amended Bill

Author: Glazer, et al.

Sponsor:

Bill Number: SB 248

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Amended: May 21, 2019

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Related Bills: See Prior Analysis

Subject: Taxation: Renter's Credit

Summary

This bill would, under the Personal Income Tax Law (PITL), increase the amount of the Renter's Credit available to qualified renters, subject to an appropriation in the annual Budget Act, and allow the credit to be refundable.

This analysis only addresses the provisions of the bill that impact the department's programs and operations.

Recommendation – No position.

Summary of Amendments

The May 21, 2019, amendments deleted the provision that would allow for a suspension of the increased credit amount, added provisions which set the increased credit amount allowed at zero unless otherwise specified in any bill providing an appropriation related to the annual Budget Act, and made other technical changes.

As a result of the amendments, one of the implementation considerations in the department's analysis of the bill as introduced February 11, 2019, and amended March 18, 2019, and April 24, 2019, was resolved. Except for the "This Bill," "Implementation Considerations," and "Economic Impact" sections, the remainder of the department's analysis of the bill as introduced February 11, 2019, and amended March 18, 2019, and April 24, 2019, still applies. The "Effective/Operative Date," "Fiscal Impact," and "Policy Concerns" sections have been restated for convenience.

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, 2019.

This Bill

For taxable years beginning on or after January 1, 2019, this bill would, under the PITL, only if specified in the Budget Act, increase the Renter's Credit as follows:

- For taxpayers with filing status of married filing jointly, head of household, or qualified widow/widower, and Annual Gross Income (AGI) of \$50,000 or less:
 - \$220 for taxpayers with no dependents.¹
 - \$434 for taxpayers with one or more dependents.
- For taxpayers with filing status of single or married filing separately, and AGI of \$25,000 or less:
 - \$220 for taxpayers with no dependents.
 - \$434 for taxpayers with one or more dependents.

For any taxable year beginning on or after January 1, 2019, in which an amount is not specified in the Budget Act, the credit amounts would be:

- \$120 for taxpayers with a filing status of married filing jointly, head of household, or qualified widow/widower.
- \$60 for taxpayers with a filing status of single or married filing separately.

Annual indexing of the AGI amounts would remain in place and would continue.

Credit Amount Re-computation (Indexing for Inflation)

For taxable years beginning on or after January 1, 2020, unless an appropriation for the credit is not specified in the Annual Budget Act, the credit amounts would be subject to indexing annually for inflation for the change in the California Consumer Price Index, relative to the prior year, as specified.

Refundability

For taxable years beginning on or after January 1, 2019, this bill would allow, upon appropriation, credit amounts in excess of the tax liability and any other balance due to be refunded to the qualified renter.

¹ The bill would use Revenue and Taxation Code section 17056 for the definition of dependent. This section states that "dependent" has the same meaning as Internal Revenue Code section 152.

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.

Implementing this bill would require changes to existing tax forms and instructions, robust education and outreach, and substantial changes to information systems to limit improper payments.

This bill would require regular annual appropriations by the Legislature to pay for the refundable portion of this credit. Refunds in excess of the appropriation would be denied pending an additional appropriation, resulting in taxpayer uncertainty and confusion.

Fiscal Impact

Staff estimates a cost of approximately \$5.9 million in fiscal year 2019/2020 to develop, program, and test revisions to new and existing systems, and resources to process and review additional income tax returns and respond to taxpayer contacts. Ongoing costs of \$3.6 million in fiscal year 2020/2021 and \$3.3 million in fiscal years 2021/2022 and continuing are estimated for resources to process and review additional income tax returns and respond to taxpayer contacts.

Economic Impact

Revenue Estimate

This bill would result in the following revenue loss:

Estimated Revenue Impact as Amended May 21, 2019
Assumed Enactment after June 30, 2019

(\$ in Millions)

Fiscal Year	Revenue
2019-2020	-\$550
2020-2021	-\$600
2021-2022	-\$600

This estimate assumes a specific appropriation of funds would be enacted in fiscal year 2019-2020 and each year thereafter.

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 Franchise Tax Board (FTB) Renter's Credit data, the amount of the Renter's Credit that taxpayers currently claim was recalculated using the proposed credit amounts specified in this bill by filing status, number of dependents, and to account that the credit would be refundable. The credits were then reduced by the amount of Renter's Credit currently claimed resulting in an estimated revenue loss of \$500 million in 2016. The estimate was then adjusted to reflect changes in the economy over time resulting in an estimated revenue loss of \$550 million in 2019.

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

Policy Concerns

The department is concerned that another refundable credit could increase the trend in refund fraud and identity theft. Historically, both the Internal Revenue Service and the FTB have experienced fraud and improper claims with refundable credits. These concerns are heightened because if a refund is determined to be fraudulent, the refund commonly cannot be recovered.

Generally, credit amounts are less for single and married filing separate filers as compared with the amount allowed to married filing jointly, head of household, and qualified widow/widower filers. The increased credit amounts this bill would allow are the same for all filers.

This bill lacks a sunset date. Sunset dates generally are provided to allow periodic review of the effectiveness of the credit by the Legislature.

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