STATE OF CALIFORNIA
Franchise Tax Board

Summary Analysis of Amended Bill

Author: Glazer, et al. | Sponsor: | Bill Number: SB 248

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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 June 27, 2019, amendments revised the beginning operative date, added a sunset date, and added a reporting requirement. As a result of the amendments, one policy consideration discussed in the department's analysis of the bill as amended on May 21, 2019, was resolved.

Except for the "Effective/Operative Date," "This Bill," Fiscal Impact," "Economic Impact," and "Policy Consideration" sections, the remainder of the department's analysis of the bill as amended May 21, 2019, still applies. The "Implementation Consideration" section has been restated below 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, 2020, and before January 1, 2025.

This Bill

For taxable years beginning on or after January 1, 2020, and before January 1, 2025, 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 surviving spouse, 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, 2020, and before January 1, 2025, 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 surviving spouse.
- $60 for taxpayers with a filing status of single or married filing separately.

These credit amounts would also remain applicable for taxable years beginning before January 1, 2020, and on or after January 1, 2025.

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, 2021, and before January 1, 2025, 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.

[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.

Refundability

For taxable years beginning on or after January 1, 2020, and before January 1, 2025, this bill would allow, upon appropriation, credit amounts in excess of the sum of the tax liability and any other balance due to be refunded to the qualified renter.

Reporting Requirements

This bill would require the Franchise Tax Board (FTB), for those years in which an amount of credit is specified in the Budget Act, to submit to the Legislature, as specified, a written report on the number of taxpayers claiming the credit and the average credit amount on tax returns claiming the credit.

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 $6 million in fiscal year 2020-2021 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 $3.7 million in fiscal year 2021-2022 and $3.3 million in fiscal years 2022-2023 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 June 27, 2019
Assumed Enactment after June 30, 2019

($ in Millions)

Fiscal Year	**Revenue**
2019-2020	$0
2020-2021	-$600
2021-2022	-$600

This estimate assumes a specific appropriation of funds would be enacted in fiscal year 2020-2021 through fiscal year 2024-2025.

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 Renter's Credit data from the FTB, the amount of the Renter's Credit that taxpayers currently claim was recalculated using the proposed credit amounts 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 is then adjusted to reflect changes in the economy over time resulting in an estimated revenue loss of $600 million in 2020.

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 amounts allowed to married filing jointly, head of household, and surviving spouse filers. The increased credit amounts this bill would allow are the same for all filing statuses, but less for taxpayers without dependents.

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