



Bill Analysis

Author: Ta

Sponsor:

Bill Number: AB 838

Related Bills: See Legislative
History

Introduced: February 19, 2025

SUBJECT

Renter's Credit Restructure

SUMMARY

This bill would, under the Personal Income Tax Law (PITL), for taxable years beginning on or after January 1 of the taxable year that includes the date on which an appropriation is first made in any bill providing for appropriations related to the Budget Act, and the four succeeding taxable years, increase the amount of the Renter's Credit, make annual inflation adjustments to the amount of the credit and the adjusted gross income (AGI) requirement, allow the credit to be refundable, and would add Revenue and Taxation Code (RTC) section 41 reporting requirements.

RECOMMENDATION

No position—The three-member Franchise Tax Board has not formally voted or taken a position on this bill.

SUMMARY OF AMENDMENTS

Not applicable.

REASON FOR THE BILL

The reason for this bill is to expand availability of the existing Renter's Credit to compensate low-and middle-income renters.

ANALYSIS

This bill would, for taxable years beginning on or after January 1 of the taxable year that includes the date on which an appropriation is first made in any bill providing for appropriations related to the Budget Act, and for the four succeeding taxable years, for a total of five taxable years, increase the Renter's Credit to:

- \$2,000 for taxpayers with filing status of married filing jointly, head of household, or surviving spouse, with AGI of \$150,000 or less, as adjusted for inflation, and
- \$1,000 for taxpayers with filing status of single or married filing separately, with AGI of \$75,000 or less, as adjusted for inflation.

This bill would provide that the increased AGI limitation would be subject to indexing for inflation based on the change in the California Consumer Price Index, for taxable years beginning on or after one year after the increase is operative, and the succeeding three taxable years.

This bill would provide that the increased credit amount would be subject to indexing for inflation based on the change in the California Consumer Price Index, for taxable years beginning on or after one year after the increase is operative, and the succeeding three taxable years.

This bill would require the current Renter's Credit amounts to remain unchanged if an appropriation for this purpose is not specified in a bill providing for appropriations related to the Budget Act.

Upon appropriation by the Legislature, this bill would allow the expanded credit amounts in excess of the sum of the tax liability and any other balance due to be refunded to the qualified renter for the years in which the increased credit amount is operative.

This bill would, for purposes of complying with RTC section 41, require the Franchise Tax Board (FTB) to prepare and provide a written report to the Senate Committee on Budget and Fiscal Review, the Assembly Committee on Budget, the Senate and Assembly Committees on Appropriations, the Senate Committee on Governance and Finance, and the Assembly Committee on Revenue and Taxation. The report would be submitted no later than May 1 of the year following the year relevant to the report and include the following:

- The number of taxpayers claiming the credit.
- The average credit amount on tax returns claiming the credit.

The RTC section 41 reporting requirements would be treated as an exception to the general prohibition against disclosure of confidential taxpayer information.

Effective/Operative Date

As a tax levy, this bill would be effective immediately upon enactment. Subject to an appropriation in the Budget Act, the credit increase and refundability of the credit would be specifically operative for taxable years beginning on or after January 1 of the year a specific appropriation of funds is made for the increased credit in a bill related to the annual budget bill, and for the succeeding four taxable years. The indexing of increased credit amounts would be operative for each taxable year beginning on or after the date one year after an appropriation is first made in the Budget Act, and for the following three taxable years.

*Federal/State Law**Federal Law*

No comparable provision in federal law.

State Law

Current state law allows qualifying renters that meet certain AGI limitations a nonrefundable credit of \$60 or \$120, based on filing status. The amount of the credit is unrelated to the amount of rent paid.

A “qualified renter” is defined as an individual who:

- Is a California resident for all or part of the tax year, and
- Rented and occupied California premises constituting his or her principal place of residence for at least 50% of the taxable year.

The definition of “qualified renter” does not include individuals:

- Who, for more than 50% of the taxable year, rented and occupied premises that with certain exceptions were exempt from property taxes.
- Whose principal place of residence, for more than 50% of the taxable year, is with any other person who claimed that individual as a dependent for income tax purposes.
- Who have been granted or whose spouse has granted the homeowner's property tax exemption during the taxable year, as specified.

Any qualified renter who is a nonresident for a portion of the taxable year is allowed 1/12 of the Renter’s Credit for each full month that the individual resided in the state for the taxable year, once the requirement of renting in California for more than 50% of the taxable year has been met.

A “resident” is defined as every individual:

- Who is in this state for an “other than” temporary or transitory purpose, or
- Is domiciled in this state but is outside the state for a temporary or transitory purpose.

Current state law allows qualified renters a nonrefundable Renter's Credit as follows for tax year 2024:

- \$120 for married filing jointly, head of household, or surviving spouse with an AGI of \$104,842 or less, and
- \$60 for single or married filing separately with an AGI of \$52,421 or less.

The credit amounts are not adjusted for inflation, while the AGI limits are annually adjusted.

Implementation Considerations

The FTB has identified the following considerations and is available to work with the author's office to resolve these and other considerations that may be identified.

This bill would require an appropriation by the Legislature to pay for the refundable portion of this credit. If there are insufficient funds available to cover all of the refunds due and payable, FTB would suspend payment until additional funds were appropriated, unless directed otherwise. Interest may have to be paid to refund recipients for the period the refund was delayed. This delay would result in additional contacts to the FTB by refund recipients, which would likely increase FTB's costs. The credit increase would not be operative absent a bill providing for an appropriation in the annual Budget Act. This could cause uncertainty for taxpayers and the FTB regarding the amount of the credit allowed and result in additional contacts to the FTB.

The credit increase would be operative as of January 1 of the taxable year that includes an appropriation and the next four years, except as provided in subdivision (I). However, subdivision (I) resets the credit amount to its original level absent a bill providing for appropriations related to the Budget Act. It is unclear whether an appropriation would be required every year of the five-year operative period or only the first year. If it is contrary to the author's intent to require an annual appropriation during the five years that the increased credit is operative under Sections 17053.5(a)(1)(A)(ii) and (a)(1)(B)(ii), the bill should be amended to clarify the purpose of subdivision (I).

This bill requires the FTB to prepare a report on the performance of the credit allowed by this bill no later than May 1 of the year following the year relevant to the report. If the author's intent is to be able to review a report that contains complete information for the first taxable year the increased amounts are in effect, it is recommended that the report due date be extended to May of the year following the year that returns for that first year are filed. For instance, the due date for the 2025 personal income tax return is April 15, 2026, with extension that becomes October 15, 2026. FTB needs approximately six months to complete return processing and to compile the needed data to prepare a report. As a result, it is recommended that the reporting due date be no earlier than May of 2027 to provide information for the 2025 taxable year. If the reporting due date remains unchanged, the report would include the information available up to six months to a year prior to the publication date.

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

Technical Considerations

To make the changes operative for taxable years beginning on or after January 1 of the year of the appropriation instead of taxable years beginning on or after the date the appropriation is made:

- For 17053.5(a)(1)(A)(ii), and 17053.5 (a)(1)(B)(ii) replace, "...the taxable year that includes the date on which an appropriation is first made..." with "...the calendar year that includes the date on which an appropriation is first made..."
- For 17053.5(a)(1)(A)(iii), replace "the date one year after the date specified in clause (ii)" with "the January 1 following the January 1 described in clause (ii)"
- For 17053.5(a)(1)(B)(iii), replace "the date one year after the date specified in clause (ii)" with "the January 1 following the January 1 described in clause (ii)"
- For 17053.5(j)(2)(A), replace "the date one year after an appropriation is first made" with " the January 1 following the January 1 described in clause (ii) of subparagraph (A) of paragraph (1) of subdivision (a)."
- For 17053.5(k)(1), replace "the date one year after an appropriation is first made in a bill relating to the Budget Act for the purpose of the expanded credit provided in" with "the January 1 following the January 1 described in (a)(1)(A)(ii) and (a)(1)(B)(ii)."

When the bill refers to an appropriation "for this purpose," for clarity the purpose should be specified.

In Section 17053.5 (n) (3), replace, "the Senate Committee on Governance and Finance, and the Assembly Committee on Revenue and Taxation." with "the Senate and Assembly Committees on Revenue and Taxation."

Policy Considerations

Historically, at a national level, refundable tax credits have had significant problems with attempts by bad actors to file invalid or fraudulent claims. If a refund is erroneously made and is later determined to likely be fraudulent, the refunds commonly cannot be recovered.

LEGISLATIVE HISTORY

SB 566 (Grove, 2025/2026), among other things, under the PITL, would increase the Renter's Credit for qualified renters to \$550 for spouses filing joint returns, heads of household, and surviving spouses, as specified, if their AGI is \$50,000 or less, as adjusted for inflation, and to an amount equal to \$275 for other individuals, as specified, if their AGI is \$25,000 or less, as adjusted for inflation for taxable years beginning on and after January 1, 2026. SB 566 has been referred to the Senate Revenue and Taxation Committee.

AB 59 (Gallagher, et al., 2023/2024), under the PITL, upon appropriation, would have increased the amount of the Renter's Credit, made annual inflation adjustments to the amount of the credit, and allowed the credit to be refundable. AB 59 did not pass out of the Assembly by the constitutional deadline.

SB 843 (Glazer, et al., 2021/2022) would have, under the PITL, increased the amount of the Renter's Credit available to qualified renters, subject to an appropriation in the annual Budget Act, and allowed the credit to be refundable. SB 843 did not pass out of the Assembly by the constitutional deadline.

AB 399 (Brough, 2019/2020) would have, under the PITL, contingent upon an appropriation, increased the amounts of the Renter's Credit. AB 399 did not pass out of the Assembly by the constitutional deadline.

SB 248 (Glazer, et al., 2019/2020) would have, under the PITL, increased the Renter's Credit amounts to \$220 for certain taxpayers with no dependents and \$434 for certain taxpayers with one or more dependents, and make the credit refundable. SB 248 did not pass out of the Assembly by the constitutional deadline.

PROGRAM BACKGROUND

Since 1973 California has provided some form of the Renter's Credit. The credit started as a refundable credit allowed to qualified individuals except for a suspension period between 1993 through 1997. Qualified taxpayers could claim the credit on their California income tax return while qualified renters, who were not required to file an income tax return, could file a Form 540A to claim a Renter's Credit refund.

The credit is \$60 for single and married filing separate/Registered Domestic Partner (RDP) renters; and \$120 for renters that are married filing joint/RDPs, head of household, or a surviving spouse. Since 1992, the AGI limitation amounts have been adjusted annually for inflation.

In 1998, the Renter's Credit was reinstated as a nonrefundable credit with certain AGI limits, and the AGI amounts continue to be adjusted for inflation annually. For the 2024 taxable year, the AGI limits were increased to \$54,421 for single and married filing separate/RDP renters; and to \$104,842 for renters that are married filing joint/RDPs, head of household, or a surviving spouse.

Information about the Renter's Credit is also available on the FTB website, [Nonrefundable Renter's Credit](#).

OTHER STATES' INFORMATION

None noted.

FISCAL IMPACT

FTB's costs to implement this bill have yet to be determined. As the bill moves through the legislative process, costs will be determined.

ECONOMIC IMPACT*Revenue Estimate*

This bill would result in the following revenue loss:

Estimated Revenue Impact of AB 838 as Introduced February 19, 2025
Assumed Enactment after June 30, 2025

(\$ in Millions)

Fiscal Year	Revenue*
2025-2026	-\$4,900
2026-2027	-\$5,500
2027-2028	-\$6,000

*This estimate assumes a bill providing appropriations related to the Budget Act would be made for this bill beginning with the 2025 taxable year.

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

Using FTB Renter's Credit data, the amount of Renter's Credit that taxpayers currently claim was recalculated using the proposed credit amounts by filing status, AGI limitations, and accounts for the Renter's Credit amount that would be refunded once the taxpayers tax liability was offset with the credit. The credit estimate is then reduced by the amount of credit currently allowed. This results in an estimated revenue loss of \$4.9 billion in the 2025 taxable year.

This estimate assumes that the share of returns filed claiming the Renter's Credit in future years would be similar to those currently claiming the credit.

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

LEGAL IMPACT

None noted.

EQUITY IMPACT

None noted.

APPOINTMENTS

None noted.

SUPPORT/OPPOSITION

Assembly Revenue and Taxation Committee Report, March 21, 2025

Support:

California Apartment Association

Opposition:

California Federation of Teachers

ARGUMENTS

To be determined.

LEGISLATIVE CONTACT

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