STATE OF CALIFORNIA
Franchise Tax Board

Bill Analysis

Author: Grove

Sponsor:

Bill Number: SB 566

Related Bills: See Legislative History

Introduced: February 20, 2025

SUBJECT

Renter's Credit Increase

SUMMARY

This bill would, under the Personal Income Tax Law (PITL), for taxable years beginning on or after January 1, 2026, increase the Renter's Credit for taxpayers who are 62 years of age or older. It would also, under the Revenue and Taxation Code (RTC), increase the homeowner's property tax exemption to $50,000 for a homeowner who is 62 years of age or older.

This analysis only addresses the provisions that would impact the Franchise Tax Board (FTB).

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 the bill is to reduce the financial burden on taxpayers by increasing the Renter's Credit.

ANALYSIS

Under the PITL, this bill would, for taxable years beginning on or after January 1, 2026, modify the Renter's Credit for taxpayers who are aged 62 or older, as follows:

- $550 for married filing jointly, head of household, or surviving spouse if one of the spouses, including the deceased meets the age requirement.
- $275 for single or married filing separately, who meet the age requirement.

This bill provides that the Legislature intends to comply with the reporting requirements of RTC section 41.

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, 2026.

Federal/State Law

Federal Law

No comparable provision in federal law.

State Law

State law allows qualifying renters that meet certain adjusted gross income (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.

Under RTC section 41, legislation that would create a new tax expenditure, which includes a credit, deduction, exclusion, exemption, or any other tax benefit as provided for by the state, is required to include specific goals, purposes, objectives, and performance measures to allow the Legislature to evaluate the effectiveness of the tax benefit.

Implementation Considerations

None noted.

Technical Considerations

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.

The author may want to modify Sections 17035.5(a)(1)(A)(i) and (a)(1)(B)(ii) to clarify that the taxpayer is eligible for the credit if they are 62 years of age or older as of the last day of the taxable year.

Policy Considerations

This bill does not provide a sunset date for the credit, which would generally allow periodic review of the effectiveness of the tax law change. If this is contrary to the author's intent, the author may wish to amend the bill.

LEGISLATIVE HISTORY

AB 838 (Ta, 2025/2026) would, under the 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 requirement, allow the credit to be refundable, and would add RTC section 41 reporting requirements. This bill has been placed in the Assembly Revenue and Taxation Committee suspense file.

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 1100 (2017/2018) similar to this bill, would have increased the amount of the homeowners' property tax exemption and modified the Renter's Credit under the PITL. AB 1100 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

The 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 provision would result in the following revenue loss:

Estimated Revenue Impact of SB 566 as Introduced February 20, 2025
Assumed Enactment after June 30, 2025

($ in Millions)

Fiscal Year	Revenue
2025-2026	$0
2026-2027	-$47
2027-2028	-$50

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 aged 62 and older currently claim was recalculated using the proposed credit amounts by filing status. The credit is then reduced by the amount of credit currently allowed. This results in an estimated additional revenue loss of $47 million in the 2026 taxable year.

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

To be determined.

ARGUMENTS

To be determined.

LEGISLATIVE CONTACT

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