STATE OF CALIFORNIA
Franchise Tax Board

Bill Analysis

Author: Wahab, et al.	Sponsor:	Bill Number: SB 681
	Related Bills: See Legislative History	Amended: April 10, 2025, and May 23, 2025

SUBJECT

Qualified Renter's Credit

SUMMARY

This bill would, under the Personal Income Tax Law (PITL), for taxable years beginning on or after January 1, 2026, and before January 1, 2031, contingent upon an appropriation in the annual Budget Act, increase the Renter's Credit, allow the credit to be refundable and 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

The April 10, 2025, amendments removed previous provisions of the Government Code (GOV), related to housing, planning and zoning, and added various provisions of the Civil Code, GOV, and the Public Resources Code. The amendments also added a provision of the PITL amending the Renter's Credit, which is discussed in this analysis, as well as other technical changes.

The May 23, 2025, amendments added coauthors, made several changes related to housing rental tenancy, landlords, mortgages, and State Energy Resources Conservation and Development Commission responsibilities. The amendments do not impact the Franchise Tax Board (FTB).

This is the FTB's first analysis of the bill and only addresses the provisions that would impact the FTB.

REASON FOR THE BILL

The reason for this bill is to address housing affordability in California.

ANALYSIS

This bill would, for taxable years beginning on or after January 1, 2026, and before January 1, 2031, in which an appropriation is specified in any bill providing for appropriations related to a budget bill, increase the Renter's Credit to the following:

- $250 for qualified renters with filing status of married filing jointly, head of household, or surviving spouse, with adjusted gross income of less than $50,000, and who have no dependents.
- $500 for qualified renters with filing status of married filing jointly, head of household, or surviving spouse, with adjusted gross income of less than $50,000, and who has one or more dependents.
- $250 for qualified renters with filing status of single or married filing separately, with adjusted gross income of less than $25,000, and who has no dependents.
- $500 for qualified renters with filing status of single or married filing separately, with adjusted gross income of less than $25,000, and who has one or more dependents.

This bill would require the current Renter's Credit amounts to remain unchanged unless specified in a bill providing for appropriations related to the Budget Act.

Upon appropriation by the Legislature, this bill would allow the 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 FTB to provide a written report, for years in which credit is funded, to the Senate Committee on Budget and Fiscal Review, the Assembly Committee on Budget, the Senate and Assembly Committees on Appropriations, and the Senate and Assembly Committees on Revenue and Taxation. The report would be required to include the following:

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

Effective/Operative Date

Upon appropriation from the Legislature, refundability of the credit would be specifically operative for taxable years beginning on or after January 1, 2026, and before January 1, 2031. Subject to specification in an appropriation bill in the Budget Act, the credit increase would be specifically operative for taxable years beginning on or after January 1, 2026, and before January 1, 2031.

Federal/State Law

Federal Law

No comparable provision in federal law.

State Law

Current 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

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.

The credit increase would be operative as of January 1, 2026, provided an appropriation is made in a bill providing for appropriations related to a budget bill. However, paragraph (2) of subdivision (k) 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 (l).

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

None noted.

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.

The bill includes RTC section 41 requirements that require the FTB to report certain information relating to the use of this credit. However, the bill is silent on the reporting due date. Individual filers that file on extension, may file as late as October 15, 2027. The FTB needs approximately six months to complete return processing and to compile the needed data to prepare a report. Thus, FTB would not have the data for the 2026 taxable year until the first half of 2028 and would require additional time for preparing and submitting the report. For clarity, the author may wish to amend the bill to specify the reporting due date, allowing sufficient time for FTB to collect the needed information, specifically, July 1, 2028, and annually thereafter.

LEGISLATIVE HISTORY

AB 838 (Ta, 2025/2026) under the PITL 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 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 AGI requirement, allow the credit to be refundable, and would add RTC section 41 reporting requirements. AB 838 was held in the Assembly Revenue and Taxation Committee.

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 did not pass out of the Senate Revenue and Taxation Committee by the constitutional deadline.

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 SB 681 as Amended May 23, 2025
Assumed Enactment after June 30, 2025

($ in Millions)

Fiscal Year	Revenue*
2025-2026	$0
2026-2027	-$950
2027-2028	-$1,000

*This estimate assumes a bill providing appropriations related to the Budget Act would fully allocate funds for the changes made to the renter’s credit in this bill.

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

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

Using FTB Renter's Credit data, the amount of Renter's Credit that taxpayers currently claim was recalculated using the proposed credit amounts of $250 for taxpayers without dependents and $500 for taxpayers with dependent. This was applied by filing status, AGI limitation, and accounts for the Renter's Credit amount that would be refunded once the taxpayer's tax liability is offset with the credit. The credit estimate is then reduced by the amount of credit currently allowed. This results in an estimated additional revenue loss of $1 billion 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

Senate Floor Analysis dated June 2, 2025.

Support

SEIU California

Opposition

California Apartment Association; California Association of Community Managers (CACM); California Bankers Association; California Credit Union League; California Mba; California Mortgage Association; Community Associations Institute - California Legislative Action Committee; South Pasadena Residents for Responsible Growth; Streets for All; and United Trustees Association.

ARGUMENTS

Senate Floor Analysis dated June 2, 2025.

Proponents

None received.

Opponents

California Association of Community Managers, the Community Associations Institute's California Legislative Action Committee writes in part:

> "…is opposed because of the cap on penalties for owners who violate governing documents. They state that HOAs need flexibility to impose reasonable penalties so that owners fulfill their fiduciary duties. South Pasadena Residents for Responsible Growth are opposed to provisions to unbundle parking, because they assert this will allow low income people without cars to rent only their apartment and not a parking spot they will not use. The California Apartment Association is opposed to provisions that limit fees that landlords may impose on tenants."

LEGISLATIVE CONTACT

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