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Renters' Income Tax Credit.

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**Renters' Income Tax Credit.
Legislative Constitutional Amendment**

Official Title and Summary Prepared by the Attorney General

**RENTERS' INCOME TAX CREDIT.
LEGISLATIVE CONSTITUTIONAL AMENDMENT.**

- Amends Constitution by allowing a credit to qualified renters against their net income tax.
- Credit to be not less than \$120 for married couples filing joint returns, heads of household, and surviving spouses, and not less than \$60 for individuals.
- Authorizes Legislature to amend existing statutes and adopt new statutes to timely or properly administer the credit.
- Applies to taxable years beginning on or after January 1, 1995.

**Summary of Legislative Analyst's
Estimate of Net State and Local Government Fiscal Impact:**

- Adoption of this measure would result in state costs of about \$100 million in 1995-96.
- Unknown but potential increase in costs in the future, depending upon actions that would otherwise be taken by the state to reduce the renters' credit.

Final Votes Cast by the Legislature on SCA 9 (Proposition 175)

Assembly: Ayes 59	Senate: Ayes 28
Noes 11	Noes 3

Analysis by the Legislative Analyst

Background

Since 1973, people who rent their principal place of residence have been eligible for state tax relief through the renters' credit. Renters get this relief through reductions in the amount of personal income taxes they pay each year. The renter's credit is applied first to any income taxes that are owed, with the balance refunded to the renter. Renters with no income tax liability can also receive the credit by filing a return.

In 1990, the renters' credit was \$120 for married couples, single parents, and surviving spouses, and \$60 for individuals. In 1991, in response to budget shortfalls, the state prohibited higher-income taxpayers—those with taxable income over \$42,500 (married) and \$21,250 (single)—from receiving the credit in 1991 through 1995. Then, in 1993 the state suspended the credit for *all* taxpayers for 1993 and 1994. The credit will be available again in 1995 for all but higher-income taxpayers, and then to all taxpayers in 1996 and thereafter. Figure 1 summarizes the credit amounts for 1990 through 1996.

Proposal

This measure amends the State Constitution to require that the renters' credit be provided to all eligible renters each year, beginning in 1995. Thus, the measure places provisions in the Constitution that are similar to ones already in statute—that is, laws passed by the Legislature. (The only significant difference is that this

measure would not require the state to issue a refund in those cases where the credit amount exceeds the renter's tax liability.) The practical effect of this measure is to require a vote of the people to eliminate, suspend, or limit the credit.

In addition, this measure would restore the ability of higher-income taxpayers to claim the credit in 1995. Under current law, they would not be able to claim the credit until 1996.

Fiscal Impact

The measure would have a one-time fiscal impact in 1995–96. There would be increased state costs of about \$100 million in that fiscal year because the measure would allow higher-income renters to claim the credit a year earlier than current law allows. Total state costs for the renters' credit in 1995–96 would be about \$525 million, as compared to about \$425 million under current law.

Aside from this one-time impact, the measure generally would not increase state costs, as its provisions are basically the same as those in existing law. However, the measure would prevent the state from limiting or suspending the credit in future years, as it has done in recent years. As a result, adoption of this measure could result in higher state expenditures for the program than would occur if this measure is not adopted.

Figure 1			
Renters' Credit Amounts (Current Law)			
Year	Individuals	Married Couples ^a	Available to Higher-Income Renters? ^b
1990	\$60	\$120	Yes
1991	60	120	No
1992	60	120	No
1993	—	—	—
1994	—	—	—
1995	60	120	No
1996 and annually thereafter	60	120	Yes

^a Also applies to single parents and surviving spouses.
^b Renters with taxable incomes in excess of \$42,500 (married) and \$21,250 (individuals).

For the text of Proposition 175 see page 28

Argument in Favor of Proposition 175

Proposition 175 repeals the most unfair tax increase in California history.

Last year, the budget was held hostage until the renters' income tax credit was eliminated. Moderate-income working families, seniors and students who rent their homes saw their income taxes increase by up to \$120.

Why were taxes increased on renters while taxes on big corporations and the very rich were cut? Because renters don't have the powerful lobbyists that big corporations have. And, unfortunately, they don't have the constitutional protections which homeowners have.

That's where Proposition 175 comes in. Proposition 175 will roll back this unfair tax increase and provide every renter with a small measure of the protection which homeowners enjoy.

Simply, Proposition 175 will restore the renters income tax credit to the level it was before the Legislature eliminated it—\$60 per individual, \$120 per family.

The renters income tax credit is one of the fairest parts of our tax system. The credit first started in the late 1960's because the sales tax went up to pay for homeowner tax relief. Renters instead received an income tax credit. Fair enough.

After Proposition 13 passed in 1978, the renters income tax credit was increased. Renters had been promised property tax relief from Proposition 13, but rents were still rising while business and homeowners got tax relief. It was only fair to provide some tax relief for renters.

Then, last year, *the Legislature and Governor completely eliminated the only tax relief renters ever got from Proposition 13.* They wiped out the renters credit for two years, amounting to an \$840,000,000 (\$840

million) income tax increase for renters. Unless Proposition 175 passes, that tax increase will become permanent.

The tax increase fell on renter families earning under \$40,000 and individuals earning under \$20,000. The only tax increase passed by the Legislature fell entirely on ordinary families and working people, seniors and students!

As part of a compromise, the legislature placed on the ballot Prop. 175, which will restore most of the tax relief renters received after Proposition 13. It will provide a small measure of fairness for renters compared to homeowners.

Proposition 175 also gives the renters' credit the same level of protection as the homeowners' property tax exemption. This homeowner tax benefit is in the Constitution and cannot be eliminated by the Legislature. Prop. 175 gives renters a measure of equal footing with homeowners, by preventing the Legislature from eliminating this tax relief again without a vote of the people.

Don't let the politicians unfairly single out renters to bear the burden of tax increases.

Give renters one of the protections from tax increases which homeowners have.

Roll back the most unfair tax increase ever!

Restore the renters' income tax credit.

Vote YES on Proposition 175.

DAVID ROBERTI

State Senator

HOWARD OWENS

Director, Congress of California Seniors

LENNY GOLDBERG

Executive Director, California Tax Reform Association

Rebuttal to Argument in Favor of Proposition 175

Today, California renters do not receive a renters' tax credit. But, once again, politicians are trying to get you to believe that the elimination of a giveaway is a "tax increase." *Right now this state is struggling to climb out of a deep recession. We are facing at least a \$5 billion budget shortfall: we've resorted to a tax extension to fund law enforcement, we are closing libraries, and vital public services are suffering.*

In the face of all of this, the legislature wants you to place into the Constitution of the State of California a permanent giveaway. The California Taxpayers Association and I oppose this terrible idea. This giveaway will cost the taxpayers \$525 million in the 1995-96 budget year.

The assertion that renters' taxes will increase if you defeat this proposition is patently wrong. Renters will

lose nothing when you defeat Proposition 175. However, if it passes, the state will be saddled with another giveaway that you will pay for. Don't believe it! The elimination of a freebie in the future is *not* a tax increase today.

The sad truth is that the same people who want to give away your tax dollars will not vote to reform welfare, the criminal justice system, or other costly programs. They want you to pay for a multi-million dollar program while California's cities are forced to *lay-off police officers and close libraries.*

Vote No on Prop. 175, CALIFORNIA CANNOT AFFORD IT.

PAUL V. HORCHER

Member, California State Assembly, 60th District

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Argument Against Proposition 175

In 1972, faced with a system that allowed unlimited personal property tax increases, the California Legislature enacted a Renters' Tax Credit. In 1978 the voters, sick and tired of the real property tax increases, passed Proposition 13.

The relief provided by Prop. 13 was shared by both property owners and renters alike. Renters benefited from the passage of Proposition 13 because the owners of the rental properties were no longer faced with continually increasing taxes and could pass the savings along to their renters in the form of lower monthly rent payments.

However, even with this double benefit for renters, the Renters' Tax Credit remained and quickly became one of the Legislature's "sacred cows." No one in Sacramento was willing to take away the Renters' Tax Credit giveaway.

In budget year 1993-94, faced with an enormous deficit, the Legislature suspended the Renters' Tax Credit—at a savings to the State of \$425 million. If Prop. 175 passes, the State will be forced to expend nearly \$550 million in the 1995-96 budget year to make up the difference.

Many lawmakers who depend heavily on renters for votes became unnerved when they realized that the defeat of this giveaway might hurt their re-election chances. They argue that renters should continue to receive double benefits: Firstly from the reduction in rent enjoyed as a result of Proposition 13; and secondly from the freebie handed out from Sacramento. We cannot afford this double dip benefit.

Voting Yes on Proposition 175 will amend the State Constitution to assure that renters continue to receive this double dip forever.

Both the California Taxpayers' Association ("CAL-Tax") and I urge you to oppose placing this giveaway into the Constitution of the State of California.

California is currently facing at least a \$5 billion shortfall. Last year we enacted historic cuts to overcome an \$8 billion deficit. We are now paying for disasters like the riot, freezes, floods, and fires and now we must pay for another devastating earthquake; all this when we are struggling through the greatest economic downturn since the Great Depression. Further, California taxpayers just extended the 1/2 cent sales tax so that we can afford adequate police protection. Why? Because the State is broke. Passage of this measure will just create one more fiscal hurdle that we must overcome. How much more can we take?

It is time to say NO to more giveaways by voting NO on Proposition 175. The Constitution should not contain guarantees for tax protection for individuals who already share equal protection provided to all of us under Proposition 13.

DON'T BE FOOLED! Enacting a constitutional guarantee of a Renters' Tax Credit helps no one. Both CAL-Tax and I said NO to this giveaway on the Assembly Floor. Now is your chance to make it clear to Sacramento: Vote NO! We cannot afford to continue to subsidize this unnecessary credit at a cost to all of us just because some Legislators need a few more votes at your expense.

PAUL V. HORCHER

Member, California State Assembly, 60th District

Rebuttal to Argument Against Proposition 175

The claim that renters have fully received all the benefits of Proposition 13—and more—is totally false.

Why would the opponent support new tax loopholes for the wealthy and still seek to permanently abolish the only tax benefit received by ordinary taxpayers who do not own their own homes?

After Proposition 13 passed, rents were still rising fast. Republicans and Democrats, apartment owners and homeowners alike, all agreed that renters deserved some tax relief. So the Legislature increased the renters income tax credit.

Here are the facts: Since 1978 the price level has more than doubled. Rents have risen at least as fast, and in many cities *far faster*.

But the renters income tax credit was first lowered, then abolished. Even when Proposition 175 restores it, it will be worth less than one-half its original value.

So, to say that renters have received more than their fair share is completely false and absurd.

Those of us who are homeowners appreciate the protections we have. We have saved thousands and thousands of dollars in property taxes we would otherwise have been forced to pay.

Compare that to the \$60 and \$120 per year that the Legislature just took away from renters. That was unfair, and it should be restored.

Repeal the unfair income tax increase on renters.

Vote YES ON PROPOSITION 175.

DAVID ROBERTI

State Senator

LARRY GROSS

Executive Director, Coalition for Economic Survival

ANNE BLACKSHAW

*Associate Director of Legislative Affairs,
California State Student Association*

Proposition 175: Text of Proposed Law

This amendment proposed by Senate Constitutional Amendment 9 (Statutes of 1993, Resolution Chapter 42) expressly amends the Constitution by adding a section thereto; therefore, new provisions proposed to be added are printed in *italic type* to indicate that they are new.

PROPOSED AMENDMENT TO ARTICLE XIII

SEC. 26.5. (a) For purposes of income taxation, qualified renters shall be allowed a credit against their net tax in an amount not less than \$120 for married

couples filing joint returns, heads of household, and surviving spouses, and in an amount not less than \$60 for other individuals.

(b) *The Legislature may amend those statutes that implement an income tax credit for qualified renters as of January 1, 1993, and may amend or enact other statutes, as necessary to timely or properly administer the credit established by subdivision (a).*

(c) *This section applies to taxable years beginning on or after January 1, 1995.*

Proposition 176: Text of Proposed Law

This amendment proposed by Senate Constitutional Amendment 15 (Statutes of 1993, Resolution Chapter 67) expressly amends the Constitution by amending a section thereof; therefore, existing provisions proposed to be deleted are printed in ~~strikeout type~~ and new provisions proposed to be added are printed in *italic type* to indicate that they are new.

PROPOSED AMENDMENT TO ARTICLE XIII, SECTION 26

SEC. 26. (a) Taxes on or measured by income may be imposed on persons, corporations, or other entities as prescribed by law.

(b) Interest on bonds issued by the State or a local government in the State is exempt from taxes on income.

(c) Income of a nonprofit educational institution of collegiate grade within the

State of California is exempt from taxes on or measured by income if *both of the following conditions are met:*

(1) ~~it~~ *The income is not unrelated business income as defined by the Legislature; and*

(2) ~~it~~ *The income is used exclusively for educational purposes.*

(d) *A nonprofit organization that is exempted from taxation by Chapter 4 (commencing with Section 23701) of Part 11 of Division 2 of the Revenue and Taxation Code or Subchapter F (commencing with Section 501) of Chapter 1 of Subtitle A of the Internal Revenue Code of 1986, or the successor of either, is exempt from any business license tax or fee measured by income or gross receipts that is levied by a county or city, whether charter or general law, a city and county, a school district, a special district, or any other local agency.*

Proposition 177: Text of Proposed Law

This amendment proposed by Assembly Constitutional Amendment 8 (Statutes of 1993, Resolution Chapter 92) expressly amends the Constitution by amending a section thereof; therefore, new provisions proposed to be added are printed in *italic type* to indicate that they are new.

PROPOSED AMENDMENT TO SUBDIVISION (c) OF SECTION 2 OF ARTICLE XIII A

(c) For purposes of subdivision (a), the Legislature may provide that the term "newly constructed" shall not include any of the following:

(1) The construction or addition of any active solar energy system.

(2) The construction or installation of any fire sprinkler system, other fire extinguishing system, fire detection system, or fire-related egress improvement, as defined by the Legislature, which is constructed or installed after the effective date of this paragraph.

(3) The construction, installation, or modification on or after the effective date

of this paragraph of any portion or structural component of a single or multiple family dwelling which is eligible for the homeowner's exemption if the construction, installation, or modification is for the purpose of making the dwelling more accessible to a severely disabled person.

(4) The construction or installation of seismic retrofitting improvements or improvements utilizing earthquake hazard mitigation technologies, which are constructed or installed in existing buildings after the effective date of this paragraph. The Legislature shall define eligible improvements. This exclusion does not apply to seismic safety reconstruction or improvements which qualify for exclusion pursuant to the last sentence of the first paragraph of subdivision (a).

(5) *The construction, installation, removal, or modification on or after the effective date of this paragraph of any portion or structural component of an existing building or structure if the construction, installation, removal, or modification is for the purpose of making the building more accessible to, or more usable by, a disabled person.*

Proposition 178: Text of Proposed Law

This amendment proposed by Senate Constitutional Amendment 4 (Statutes of 1993, Resolution Chapter 93) expressly amends the Constitution by amending a section thereof; therefore, existing provisions proposed to be deleted are printed in ~~strikeout type~~ and new provisions proposed to be added are printed in *italic type* to indicate that they are new.

PROPOSED AMENDMENT TO SUBDIVISION (a) OF SECTION 2 OF ARTICLE XIII A

(a) The full cash value means the county assessor's valuation of real property as shown on the 1975-76 tax bill under "full cash value" or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment. All real property not already assessed up to the 1975-76 full cash value may be reassessed to reflect that valuation.

For purposes of this section, "newly constructed" does not include ~~real~~ *any of the following:*

(1) *Real property which that is reconstructed after a disaster, as declared by the Governor, where the fair market value of the real property, as reconstructed, is comparable to its fair market value prior to the disaster. Also, the term "newly constructed" shall not include the*

(2) *That portion of reconstruction or improvement to a structure, constructed of unreinforced masonry bearing wall construction, necessary to comply with any local ordinance relating to seismic safety during the first 15 years following that reconstruction or improvement.*

(3) *That portion of any improvement to real property that consists of the installation of water conservation equipment, as defined by the Legislature, for agricultural use.*

~~However, the~~ *The* Legislature may provide that under appropriate circumstances and pursuant to definitions and procedures established by the Legislature, any person over the age of 55 years who resides in property which is eligible for the homeowner's exemption under subdivision (k) of Section 3 of

Article XIII and any implementing legislation may transfer the base year value of the property entitled to exemption, with the adjustments authorized by subdivision (b), to any replacement dwelling of equal or lesser value located within the same county and purchased or newly constructed by that person as his or her principal residence within two years of the sale of the original property. For purposes of this section, "any person over the age of 55 years" includes a married couple one member of which is over the age of 55 years. For purposes of this section, "replacement dwelling" means a building, structure, or other shelter constituting a place of abode, whether real property or personal property, and any land on which it may be situated. For purposes of this section, a two-dwelling unit shall be considered as two separate single-family dwellings. This paragraph shall apply to any replacement dwelling which was purchased or newly constructed on or after November 5, 1986.

In addition, the Legislature may authorize each county board of supervisors, after consultation with the local affected agencies within the county's boundaries, to adopt an ordinance making the provisions of this subdivision relating to transfer of base year value also applicable to situations in which the replacement dwellings are located in that county and the original properties are located in another county within this State. For purposes of this paragraph, "local affected agency" means any city, special district, school district, or community college district which receives an annual property tax revenue allocation. This paragraph shall apply to any replacement dwelling which was purchased or newly constructed on or after the date the county adopted the provisions of this subdivision relating to transfer of base year value, but shall not apply to any replacement dwelling which was purchased or newly constructed before November 9, 1988.

The Legislature may extend the provisions of this subdivision relating to the transfer of base year values from original properties to replacement dwellings of homeowners over the age of 55 years to severely disabled homeowners, but only with respect to those replacement dwellings purchased or newly constructed on or after the effective date of this paragraph.