May 23, 2002

Hon. Bill Lockyer
Attorney General
1300 I Street, 17th Floor
Sacramento, California 95814

Attention: Ms. Tricia Knight
Initiative Coordinator

Dear Attorney General Lockyer:

Pursuant to Elections Code 9005, we have reviewed the proposed initiative entitled "Jarvis-Simon Homeowners and Renters Tax Relief Act" (File number SA2002RF0015).

MAJOR PROVISIONS OF THE INITIATIVE

This measure amends the California Constitution and state law to expand the taxpayer benefits of the homeowners' exemption and renters' credit.

Provisions Increasing the Homeowners' Exemption

The Constitution grants a $7,000 property tax exemption on the assessed value of owner-occupied dwellings and requires the state to reimburse local governments for the resulting reduction in property tax revenues. Since the average statewide property tax rate is 1.07 percent of assessed value, the exemption reduces the typical homeowner's taxes by about $75 annually. Over five million homeowners currently claim the exemption. The cost to the state for reimbursing local governments is expected to be $410 million in 2002-03. This amount increases slightly each year—which reflects the growth in the number of homeowners claiming the exemption—and is expected to reach about $430 million in 2005-06.

This measure amends the Constitution to increase, beginning in 2005, the amount of the homeowners' exemption from $7,000 to $32,000. For the typical homeowner, the value of the homeowners' exemption, therefore, would increase to about $342—an increased benefit of about $268. In addition, the measure increases the amount of the exemption annually for the rate of inflation.

Provisions Creating a Supplemental Renters' Credit

Under current law, the renters' credit provides an annual tax credit to designated Californians who rent their principal place of residence. Up to the amount of their personal income tax liability, single renters with annual incomes of less than about $28,000 can claim a renters' credit of $60, and married couples and heads of households with incomes of less than about $56,000 can claim a credit of $120. As a result of the program, the state receives lower income tax payments of about $100 million annually.

In addition to the existing credit, this measure creates a supplemental renters' credit, beginning in the 2005 tax year. This supplemental credit would:

- Be available to all renters, regardless of income.
- Provide a maximum credit of $125 for single renters and $250 for married and heads-of-household renters.
- Be increased annually for the rate of inflation.
- Be funded through a budget appropriation, as opposed to a revenue reduction.

As with the existing credit, the amount of the supplemental credit would be limited to the filer's income tax liability.

FISCAL EFFECT

Increased State Costs for Homeowners' Exemption

The measure would increase the homeowners' exemption from $7,000 to $32,000. The state's costs to reimburse local governments for lost property taxes would increase at a similar rate beginning in 2005—from about $430 million to nearly $2 billion. Thus, the measure would increase state costs by about $1.5 billion. In addition, this amount in the future would increase at a faster rate than under current law, due to the annual increase in the exemption for the rate of inflation.

Increased State Costs for Supplemental Renters' Credit

By creating a supplemental renters' credit without income limits, many more renters would claim this supplemental credit than those who claim the existing credit. In addition, each existing claimant with additional tax liability would receive an increased benefit from the supplemental credit. The combination of these two factors would result in increased state costs of nearly $600 million annually to fund the supplemental credit. This amount would increase annually thereafter—as a result of new renters claiming the credit and the credit amounts increasing each year for inflation.

Increased Income Tax Revenues

The increased homeowners' exemption would decrease the amount of property taxes paid by homeowners. Consequently, for those homeowners who itemize their income tax deductions, eligible deductions would decline. This would increase personal income tax collections in the range of $80 million annually.

SUMMARY

The initiative would have the following major fiscal effects:

- Increased state costs for the expansion of the homeowners' exemption and renters' credit of about $2.1 billion annually.
- Increased state income tax revenues of about $80 million annually due to reduced property tax deductions.

Sincerely,

Elizabeth G. Hill
Legislative Analyst

B. Timothy Gage
Director of Finance