SENATE COMMITTEE ON REVENUE AND TAXATION

Senator Jerry McNerney, Chair

2025 - 2026 Regular

Bill No:	SB 566	**Hearing Date:**	5/14/25
Author:	Grove	**Tax Levy:**	Yes
Version:	5/1/25 Amended	**Fiscal:**	Yes
Consultant:	Grinnell		

REAL PROPERTY TAX: PERSONAL INCOME TAX LAW: HOMEOWNERS' EXEMPTION: RENTER'S CREDIT

Enhances the value of the homeowners' property tax exemption and renter's income tax credit for taxpayers over the age of 62.

Background

Property taxation. Section One of Article XIII of the California Constitution provides that all property is taxable unless explicitly exempted by the Constitution or federal law. The Constitution limits the maximum amount of any ad valorem tax on real property at 1% of full cash value, plus any locally-authorized bonded indebtedness (Article XIIIA, as added by Proposition 13 of 1978). Assessors reappraise property whenever it is purchased, newly constructed, or when ownership changes. The Constitution and statute define those terms.

The Homeowners' Exemption. The Constitution exempts $7,000 in taxable value when the home is the principal place of residence of the owner on January 1st of the year the exemption is claimed, unless the taxpayer claims another exemption. State law precludes the exemption for a property that is rented, vacant, under construction on the lien date, or that is a vacation or secondary home. Once granted, the exemption continues until the taxpayer notifies the assessor or ownership changes. The Legislature enacted the homeowners' exemption in 1968, and increased it to its current level in 1972, effective in 1974. The Constitution s $7,000 is a minimum; despite numerous attempts, the exemption has not been increased in more than 50 years.

The Constitution allows the Legislature to increase the exemption; however, they must increase subventions to local agencies backfilling any revenue loss, and provide increases in benefits to qualified renters. Unlike other exemptions, Section 25 of Article XIII requires the state to backfill local property tax revenue losses resulting from the exemption.

Tax expenditures. California law allows various income tax credits, deductions, exemptions, and exclusions. The Legislature enacts such tax incentives either to compensate taxpayers for incurring certain expenses, such as child adoption, or to influence certain behavior, such as charitable giving. The Legislature uses tax incentives to encourage taxpayers to do something that, but for the tax credit, they would otherwise not do. The Department of Finance is required annually to publish a list of tax expenditures, currently totaling around $91.5 billion per year.

Renter's credit. The state's Personal Income Tax law allows eligible taxpayers who rent their principal residence to claim the Renter's Tax Credit on their Personal Income Tax Return. The

Legislature enacted the credit in 1972 as part of a comprehensive property tax reform program that increased the homeowner's exemption from property tax, which reduces the property tax on owner-occupied property. Specifically, because renters do not directly benefit from property tax reductions, the Legislature enacted the credit to provide a direct benefit to renters. To maintain parity, the Legislature significantly increased the credit in 1979, shortly after the approval of Proposition 13, which capped property tax rates and limited reassessment. The Legislature suspended the credit for the 1993 through 1997 taxable years, but reinstated it beginning with the 1998 taxable year. To qualify for the renter's credit, the individual must be a California resident for all or part of the tax year, and rented and occupied California premises constituting their principal place of residence for at least 50% of the taxable year.

State law requires an annual inflation adjustment of the credit's Annual Gross Income (AGI) limitations, but does not annually increase the credit amount for inflation, which has remained at its current amount since 1979. The credit is nonrefundable, which means that the credit can reduce a taxpayer's tax liability to zero, but it cannot result in a refund. For the 2024 taxable year, the credit is equal to:

- $60 for filers that are single or married filing separately with an AGI of $52,421 or less; and
- $120 for filers that are married filing jointly, head of household, or a qualified widow(er) with an AGI of $104,842 or less.

The author wants to grant tax relief to those over the age of 62, specifically to homeowners by increasing the amount of the homeowners' exemption, and for renters by increasing the renter's credit.

Proposed Law

SB 566 expands two tax benefits for taxpayers over the age of 62.First, the measure increases the homeowners' exemption from property tax from $7,000 to $50,000 for taxpayers over the age of 62, effective for the lien date for the 2026-27 property tax year.

Second, for taxable years beginning in 2026, increase the Renter's Credit for taxpayers who are aged 62 or older using the same income thresholds:

- From $120 to $550 for married filing jointly, head of household, or surviving spouse if one of the spouses, including the deceased, meets the age requirement.
- From $60 to $275 for single or married filing separately, who meet the age requirement.

The bill also makes legislative findings and declarations to comply with Section 41 of the Revenue and Taxation Code.

State Revenue Impact

According to the Board of Equalization (BOE), SB 566's increase the homeowners' exemption increases the state reimbursement for the homeowners' exemption approximately $817 million annually. BOE notes that the loss is likely to increase over time as the number of qualified claimants increases due to the aging population.

The Franchise Tax Board estimates that SB 566's changes to the renter's credit result in revenue losses of $47 million in 2026-27, and $50 million in 2027-28.

Comments

1. Purpose of the bill. According to the author, "Our constituents have been clear that making California more affordable should be a high priority for the legislature. California has some of the highest energy prices, utility prices, gasoline prices, and housing prices in the country. Californians across the state are struggling to afford the high cost of living. The Homeowners Exemption and Renter's Tax Credit were originally established by the California Legislature to help offset these financial burdens. However, the credit amounts have remained unchanged for over 45 years and no longer reflect the current economic reality. SB 566 aims to support our senior citizens who are increasingly at risk of falling into poverty. The bill proposes increasing the Homeowners Exemption from $7,000 to $50,000, and raising the Renter's Tax Credit from $60 to $275 for single filers, and from $120 to $550 for joint filers. These updates account for inflation since 1972 and are targeted specifically at individuals aged 62 and older. Every dollar saved can make a significant difference, especially for seniors on fixed incomes."

2. Credits. SB 566 takes a two-pronged approach to granting tax relief to Californians over the age of 62: First by increasing the homeowners' exemption (which only benefits property owners) and second through a renter's credit, which only qualified renters can claim. However, as a nonrefundable credit, the current Renter's Tax Credit would likely have little benefit for the state's poorest families. Since California has a progressive income tax and a significant dependent exemption credit, many low-income families may not be required to file a return, and if so, have little to no income tax liability. If the tax credit was refundable, it could provide benefit to low- and middle-income taxpayers, but both FTB and the Legislative Analyst's Office agree that refundable credits can increase refund fraud and identity theft. Historically, both the Internal Revenue Service and FTB have experienced identity fraud and improper claims with refundable credits. Additionally, if a refund is determined to be fraudulent, FTB cannot likely recover the refund because an unknown person filed the tax return using a stolen or fraudulent identity.

3. Make it worth it. Much like proposals to enhance the renter's credit, the Legislature has considered several proposals in recent years to increase the homeowner's exemption from property tax. Because the dollar value of the current exemption is only around $70 ($7,000 at the 1% property tax rate), any increase would need to be significant enough to induce taxpayers to file a claim for the enhanced exemption, as the current claim form does not require a taxpayer to state their age. SB 566's exemption would have a value of around $500, a seven-fold increase. While the additional benefit would help those over the age of 62 who struggle with increased costs of living, the exemption applies solely to property owners, and applies uniformly regardless of the property owner's income. As a result, some of the bill's benefits could accrue to taxpayers who while over the age of 62, have sufficient wealth to pay property taxes, even in a time of higher costs.

4. Revenue loss. Existing tax law provides various credits, deductions, exclusions, and exemptions for certain taxpayers. Since the Legislature enacts these items to accomplish some governmental purpose, which has a cost — in the form of foregone revenues — state law refers to them as "tax expenditures." This bill would increase an existing tax expenditure resulting in foregone General Fund revenue in the first year it's enacted. As a result, the state will have to reduce spending or increase taxes to match the foregone revenue. The Committee may wish to

consider whether SB 566 is a cost-effective way to help Californians over the age of 62 manage higher costs.

5. No sunset. Generally, when the Legislature enacts a new or enhanced tax benefit, it does so for a finite period of time by inserting a sunset provision. A future Legislature can then evaluate the tax expenditure's performance during its effective period while considering whether to extend, modify, or let it expire. However, SB 566 does not contain a sunset provision on either its property tax exemption increase or its enhanced renters' credit amounts.

6. Section 41. Section 41 of the Revenue and Taxation Code requires any bill enacting a new tax expenditure to contain, among other things, specific goals, purposes, and objectives that the tax expenditure will achieve, detailed performance indicators, along with data collection and reporting requirements (SB 1335, Leno, 2014). While property tax expenditures are not subject to Section 41, SB 566's changes to the renters' credit are. SB 566 states as its goal, purpose, and objective to expand the availability of the existing renter's credit to compensate low- and middle-income renters 62 years of age or older for the increasing rates of rent throughout the State of California. The measure identifies the number of taxpayers who utilized the credit and the average dollar amount of credits claimed as performance indicators, and directs FTB to issue a report on or before May 1, 2027, and each May 1 thereafter, detailing the amount of credits claimed and number of taxpayers allowed a credit.

7. Related legislation. Although not considered by the Revenue & Taxation Committee, SB 681 (Wahab) increases the renter's credit to either $250 for a taxpayer without dependents, or $500 for a taxpayer with dependents, regardless of filing status, among other changes. The measure also makes the credit refundable if the Legislature appropriates refunds. The bill was approved by the Committees on Housing and Judiciary, and is currently pending in the Committee on Appropriations.

Support and Opposition (5/9/25)

Support: Board of Equalization Chair, Senator Ted Gaines
California Apartment Association
California Association of Realtors
Community Action Partnership of Kern
Housing Authority of the County of Kern
Howard Jarvis Taxpayers Association
Independent Living Center of Kern County
Los Angeles County Taxpayers Association
Sacramento Taxpayers Association
Southern California Rental Housing Association

Opposition: California Tax Reform Association
California Teachers Association

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