

SUMMARY ANALYSIS OF AMENDED BILL

Franchise Tax Board

Author: Assm. Rev. & Tax. Comm. Analyst: Kristina E. North Bill Number: AB 2978

Related Bills: See Prior Analyses Telephone: 845-6978 Amended Date: May 23, 2002

Attorney: Patrick Kusiak Sponsor: _____

SUBJECT: Conformity to Federal Victims of Terrorism Tax Relief Act of 2001

DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended _____.

A NEW REVENUE ESTIMATE is provided.

AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as introduced/amended _____.

FURTHER AMENDMENTS NECESSARY.

DEPARTMENT POSITION CHANGED TO _____.

REMAINDER OF PREVIOUS ANALYSES OF BILL AS INTRODUCED FEBRUARY 27, AND AMENDED MAY 2, 2002, STILL APPLIES.

OTHER - See comments below.

SUMMARY

This bill would conform state law to specified sections of the federal Victims of Terrorism Tax Relief Act of 2001 to do the following:

- ◆ exempt items from income for certain disasters or acts of terrorism,
- ◆ extend certain taxpayer deadlines, and
- ◆ allow disclosure of certain taxpayer information to federal agencies.

SUMMARY OF AMENDMENTS

The May 23, 2002, amendments would renumber one of the bill's sections and make minor technical changes.

The department has revised its interpretation regarding the bill's conformity to Internal Revenue Code section 692(d)(2). This new interpretation would result in a substantial revenue loss. Except for these amendments, the new policy concern, the proposed amendments, and the new revenue estimate, the remainder of the department's analyses of this bill as introduced February 27, and amended May 2, 2002, still applies. The Board's position remains pending.

Board Position:

<input type="checkbox"/> S	<input type="checkbox"/> NA	<input type="checkbox"/> NP
<input type="checkbox"/> SA	<input type="checkbox"/> O	<input type="checkbox"/> NAR
<input type="checkbox"/> N	<input type="checkbox"/> OUA	<input checked="" type="checkbox"/> PENDING

Legislative Director

Date

Brian Putler

6/19/02

ECONOMIC IMPACT

Revenue Estimate

The revenue analysis for this version of AB 2978 has been revised. In the prior analysis, an assumption was made that this proposal applied only to California taxpayers. However, as written, this proposal would require the state of California to provide certain benefits to all terrorist victims associated with the Victims of Terrorism Tax Relief Act of 2001.

Based on the Joint Committee on Taxation's (JCT) estimated budget effects of the Victims of Terrorism Tax Relief Act of 2001 as well as the federal impacts projected for disaster relief, conforming to federal income tax provisions would result in revenue losses as follows:

Estimated Revenue Losses Enactment Assumed After 6/30/2002 (In \$ Millions)			
	2002/2003	2003/2004	2004/2005
Disaster Relief/Federal Conformity to P.L. 107-134	-\$25	-\$10	Negligible

*Numbers rounded.

A majority of the above losses pertains to the \$10,000 minimum tax relief benefit for each eligible individual regardless of the income tax liability of the individual for the eligible years. The individual will receive as a tax benefit the larger of his or her tax liabilities for California purposes taken together for the year of death and the year prior or \$10,000.

Per JCT, the estimated losses are \$187 million, \$51 million, and \$6 million for their fiscal years ending in 2002, 2003, and 2004, respectively. These amounts were reduced by half to account for the reduction in number of victims as originally estimated from September 11 ($(\$187 \text{ million} + \$51 \text{ million} + \$6 \text{ million})/2 = \122 million). According to a media source relating to the number of victims of September 11th and other news articles regarding anthrax and the Oklahoma bombings, there were approximately 45 victims from California out of an estimated total of 3,200 victims. Approximately 50 victims were from other countries. As written, California would be required to provide a tax relief benefit to all 3,200 individuals. Since these individuals are not all California residents, not all would exceed the \$10,000 minimum benefit. Therefore, this estimate was calculated in two parts. First, the \$10,000 minimum benefit was multiplied by the total number of victims resulting in a revenue loss of \$32 million. A ratio of 45 (California residents) to 3,150 (U.S. residents) was applied to the balance of the federal estimate utilized for this analysis that exceeds the \$32 million. ($(\$122 \text{ million} - \$32 \text{ million}) \times (45/3150) = \1.3 million .) In addition, the \$1.3 million was adjusted to reflect California's lower tax rates. ($\$1.3 \text{ million}/28\% \times 9.3\% = \0.43 million .) All other revenue losses associated with this proposal are expected to be negligible. The results were then added to the \$32 million, calculated on a fiscal year basis for 2002/2003, 2003/2004, and 2004/2005, and rounded.

POLICY CONCERN

This bill would provide a minimum tax relief benefit of \$10,000 to each eligible individual regardless of the income tax liability of the individual for the eligible years. Thus, an individual from New York with no California tax liability would be entitled to a minimum tax relief benefit of \$10,000. The author may wish to remove this apparently unintended gift of public funds. Please see Amendments 1 and 2.

LEGISLATIVE STAFF CONTACT

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FRANCHISE TAX BOARD'S
PROPOSED AMENDMENTS TO AB 2978
As Amended May 23, 2002

AMENDMENT 1

On page 4, line 4, after "(b)(1)" insert:

(A)

AMENDMENT 2

On page 4, line 7, after "after September 11, 2001" insert:

, except as otherwise provided

(B) Section 692(d)(2) of the Internal Revenue Code, relating to the \$10,000 minimum benefit, shall not apply.