Franchise Tax Board

SUMMARY ANALYSIS OF AMENDED BILL

Author: Hollingsworth | Analyst: Darrine Distefano | Bill Number: AB 17

Related Bills: See Prior Analysis | Telephone: 845-6458 | Amended Date: 05-30-2001

Attorney: Patrick Kusiak | Sponsor:

SUBJECT: PIT Rate Reduction

____	DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended ______________________.
X	AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.
X	AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as introduced December 4, 2000.
X	FURTHER AMENDMENTS NECESSARY.
X	DEPARTMENT POSITION CHANGED TO NEUTRAl.
X	REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED December 4, 2000 STILL APPLIES.
____	OTHER - See comments below.

SUMMARY

This bill would:

- Reduce all existing personal income tax (PIT) rates over a five-year period to zero so that personal income tax would be eliminated by the year 2005 for all individuals.
- Eliminate the personal alternative minimum tax (AMT) in the year 2005.

SUMMARY OF AMENDMENTS

The May 30, 2001, amendments added the AMT provision. The amendments change the implementation, technical, and one policy concern identified in the department's analyses of the bill as introduced December 4, 2000, but does not resolve them. These concerns and a revised revenue estimate are below. The remainder of the department's analysis of the bill as introduced on December 4, 2000, still applies.

POSITION

Neutral.

At its May 2, 2001, meeting, the Franchise Tax Board voted 2-0 to take a neutral position on this bill, with Annette Porini, on behalf of Member B. Timothy Gage, abstaining.

Board Position:			Legislative Director	Date
____ S	____ NA	____ NP		
____ SA	____ O	____ NAR	Brian Putler	06/19/01
X N	____ OUA	____ PENDING		

Implementation Concerns

Reducing the tax rate would require some changes to existing tax forms and instructions and information systems, which could be accomplished during normal annual update.

Technical Considerations

The majority of the Personal Income Tax Laws (PITL), certain articles pertaining to personal income tax in the Administration of the Franchise and Income Tax Laws and the Taxpayer Bill of Rights would need to be repealed or amended to reflect the elimination of all marginal tax rates by the year 2005. Department staff is available to assist with these amendments.

ECONOMIC IMPACT

Revenue Estimate

This bill would result in revenue losses as shown in the following table:

Revenue Impact of AB 17 For Taxable Years Beginning 1/1/2001 Assumed Enactment After 6/30/01 Fiscal Years **(In Billions)**			
2001-02	**2002-03**	**2003-04**	**2004-05**
-$15	-$17	-$20	-$37

This analysis does not consider the possible changes in employment, personal income, or gross state product that could result from this proposal.

Revenue Discussion

The impact of this bill would depend on the amount of tax reductions as a result of a reduction in marginal tax rates, offset by an increase in the AMT for taxable years 2001, 2002, 2003, and 2004. For taxable years 2005 and thereafter, the impact would depend on the amount of tax reductions as a result of eliminating personal income taxes.

The revised revenue losses reflect no change for 2001-02, and increases of $3 billion for 2002-03, $3 billion for 2003-04 and $19 billion for 2004-05 from the original analysis of this bill. These changes in losses are primarily attributable to an updated version of our personal income tax model and the elimination of the alternative minimum tax for taxable years beginning on or after January 1, 2005.

ARGUMENTS/POLICY CONCERNS

Since this bill reduces regular tax rates incrementally over 4 years and then eliminates the AMT in 2005, there would be an increased number of taxpayers who would owe AMT between 2001-2004 due to the reduced tax rates during these years.

This bill would result in the elimination of many of the PIT programs within FTB in 2005. This would reduce a large amount of FTB's workload and the revenue it generates for the General Fund.

Income taxes for sole proprietorships would be reduced and eventually eliminated by this bill. However, C and S corporations, partnerships, and limited liability companies, would continue to pay taxes (annual tax, fee, or income or franchise tax) under existing law, thus creating different treatment for businesses based on their entity type.

LEGISLATIVE STAFF CONTACT

Darrine Distefano
Franchise Tax Board
845-6458

Brian Putler
Franchise Tax Board
845-6333