Franchise Tax Board

SUMMARY ANALYSIS OF AMENDED BILL

Author:	Cogdill	Analyst:	Roger Lackey	Bill Number:	AB 499
Related Bills:	See Prior Analysis	Telephone:	845-3627	Amended Date:	04-22-2002
		Attorney:	Patrick Kusiak	Sponsor:	

SUBJECT: Agency Designate Additional Enterprise Zone & Targeted Tax Area In Inter-Regional Partnership & Additional Zone In Imperial County

____	DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended ________________________.
____	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 amended April 1, 2002.
____	FURTHER AMENDMENTS NECESSARY.
____	DEPARTMENT POSITION CHANGED TO ________________________.
X	REMAINDER OF PREVIOUS ANALYSIS OF BILL AS AMENDED April 1, 2002, STILL APPLIES.
X	OTHER - See comments below.

SUMMARY

This bill would require the Technology, Trade, and Commerce Agency (TTCA) to designate a new enterprise zone (EZ) and targeted tax area (TTA) within a county within a specified group of counties.

This analysis will only discuss those provisions of the bill impacting the department.

SUMMARY OF AMENDMENT

The April 22, 2002, amendments deleted provisions of the bill related to the interregional improvement program and transportation infrastructure improvements. The amendments also deleted a portion of the bill's legislative intent. The implementation and technical considerations included in the department's analysis of the bill as amended April 1, 2002, still apply and are included below.

As a result of additional data obtained for the 2000 taxable year, the department's revenue estimate for the additional TTA has been revised. The revised revenue estimate is included below. The remainder of the department's prior analysis still applies.

POSITION

Pending.

Board Position:			Legislative Director	Date
____ S	____ NA	____ NP		
____ SA	____ O	____ NAR	Brian Putler	5/9/02
____ N	____ OUA	X PENDING		

IMPLEMENTATION CONSIDERATIONS

This bill would require TTCA to designate an EZ within the boundaries of the manufacturing enhancement areas (MEA). If the EZ did not have the same boundaries as the MEA, taxpayers that were included in the MEA may not be included in the EZ. As a result, a taxpayer may lose the benefits associated with the MEA and the EZ.

It is unclear what the designation date and expiration date of the EZ would be. In the past, when program areas were converted to EZs, the designation date, and thus, the expiration date of the converted program area remained unchanged.

Two MEAs exist in Imperial County (Brawley and Calexico). It is unclear whether both MEAs are eligible for designation as an EZ or only one. If both are eligible, it also would be unclear whether the designation would allow for only one EZ to be designated that includes both Calexico and Brawley, or whether two separate EZs would be designated.

This bill would require TTCA to designate either one or both of the MEAs in Imperial County as an EZ, and would provide that the MEA and its benefits would cease on the designation date. Under current law, taxpayers operating in an MEA are eligible to claim a hiring credit. The hiring credit and its carryover are only applied against income and tax generated from activities in the MEA. It is unclear whether the taxpayer would be able to apply the MEA hiring credit and carryover to future years, since the taxpayer would no longer have MEA income.

This bill would state that the benefits obtained in the MEA cease. It is unclear whether a taxpayer would still be allowed to incur new MEA hiring credits or if the taxpayer would lose the right to apply existing MEA hiring credit and credit carryover obtained in prior tax years.

Once the MEA is designated as an EZ, it is unclear if those employees previously qualifying the taxpayer for the MEA hiring credit would automatically qualify the taxpayer for the EZ hiring credit. If not, the taxpayer would have to obtain new vouchers for those employees.

An MEA has a single tax benefit, the hiring credit. EZs have several different tax benefits (hiring credit, sales and use tax credit, business deduction, net operating loss, and a net interest deduction). It is unclear what impact this bill would have on fiscal year taxpayers that are claiming these tax benefits. Taxpayers that operate on a fiscal year may be in the MEA for the first portion of their taxable year, and in an EZ for the remaining portion of the taxable year. It is unclear what tax benefits would be available to the fiscal year taxpayer or how the taxpayer would claim the new benefits.

The conversion of the MEA to an EZ and the treatment of the MEA and EZ tax benefits should be clarified in the MEA and EZ Revenue and Taxation Code provisions. Department staff is available to assist the author's office in drafting the appropriate amendments.

Of the four criteria listed to be eligible for an EZ or the new TTA, the first two criteria are specific to the proposed area. However, the third and fourth criteria (concerning population and a unique distress factor) do not specify whether they apply to the proposed area or the county where the proposed area is located. As a result, the lack of certainty may create confusion for both the applying area and TTCA.

Once the implementation considerations are resolved, implementing this bill would not significantly impact the department's programs and operations.

TECHNICAL CONSIDERATIONS

The criteria for the new TTA refer to "the proposed enterprise zone area." The criteria should be amended to refer to the proposed TTA. The attached amendments would make the proper reference.

Revenue Estimate

The amendments of April 1, 2002 still apply to the change in designation from an MEA in Imperial County to an EZ in Imperial County.

The amendment of January 17, 2002, addressed the designation of an EZ and a TTA in the Inter-Regional Partnership (IRP). The revenue analysis regarding the EZ still applies. However, new tax data for 2000 resulted in a revised revenue estimate for the new TTA proposed in the IRP, as shown below.

Revenue Impact of AB 499 Tax Years Beginning After December 31, 2002 Enactment Assumed After June 30, 2002 ($ Millions)			
Fiscal Year	2002-03	2003-04	2004-05
	Minor	-1	-2

Minor <$500,000

Revenue Discussion

In the revenue analysis of the January 17, 2002 amendment, the TTA in Tulare County was used as a proxy for the revenue impact of a proposed TTA in the IRP. In that amendment, the corporate credits used for 2000 were estimated to have the same annual increase as the PIT credits used (88% from 1999 to 2000). In fact, the increase for the 2000 figures for corporate credits was significantly higher. As a result, the revenue estimate increased from -$700,000 to -$1 million for the 2003-04 fiscal year, and from -$1 million to -$2 million for the 2004-05 fiscal year.

Under current law, the existing TTA in Tulare County had a revenue impact of $2.3 million in its second full year (PIT and corporation tax combined in 2000). The combined total was $709,000 in 1999 in its first full year. It is expected that the credits used by the proposed TTA in the IRP will be comparable.

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FRANCHISE TAX BOARD'S
PROPOSED AMENDMENTS TO AB 499
As Amended April 22, 2002

AMENDMENT 1

On page 5, line 8, strikeout "enterprise zone" and insert:

targeted tax

AMENDMENT 2

On page 5, line 12, strikeout "enterprise zone" and insert:

targeted tax