

SUMMARY ANALYSIS OF AMENDED BILL

Franchise Tax Board

Author: Horton Analyst: Roger Lackey Bill Number: AB 874

Related Bills: See Prior Analysis Telephone: 845-3627 Amended Date: 07-03-2001

Attorney: Patrick Kusiak Sponsor: _____

SUBJECT: Community Development Financial Institution Investments Credit/Extend Repeal Date To January 1, 2005

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

AMENDMENTS IMPACT REVENUE. 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 ANALYSIS OF BILL AS AMENDED

June 20, 2001. STILL APPLIES.

OTHER - See comments below.

SUMMARY

This bill would amend the Community Development Financial Institution Investments (CDFII) credit as follows:

- Extend the repeal date.
- Rename and redefine specific terms.
- Limit the amount of the investments eligible for the credit.
- Require the Franchise Tax Board to advise and assist in the administration of the credit.

This bill would make multiple other changes to the Revenue and Taxation Code. These changes will only be discussed to the extent they impact the department.

SUMMARY OF AMENDMENTS

The July 3, 2001, amendments added a number of changes to the CDFII Credit. These changes are discussed in the THIS BILL section of the analysis below along with a new Implementation Consideration and Revenue Estimate. The remainder of the department's analysis of the bill as amended June 20, 2001, still applies.

POSITION

Pending.

Board Position:

_____ S _____ NA _____ NP
_____ SA _____ O _____ NAR
_____ N _____ OUA PENDING

Legislative Director

Date

Brian Putler

08/02/01

THIS BILL

This bill would extend the sunset date of the CDFII Credit from January 1, 2002, to January 1, 2005.

This bill would amend the credit to use the term “qualified investments” made by the taxpayer rather than “qualified deposits.” This bill would define “qualified investments” to mean a deposit or loan that does not earn interest, or an equity investment, or an equity-like debt instrument. The qualified investment would conform to the specifications of the specific instrument as prescribed by the United States Department of Treasury, the Community Development Financial Institutions Fund, or its successor.

In the case where the aggregate amount of qualified investments (deposits) is less than \$10 million in any calendar year, the difference between the aggregate amount of the qualified investments and \$10 million would be carried over to the next and succeeding years. The difference would be added to the aggregate amount of the following year. The amount would only be carried over to years the credit was available.

This bill would require FTB to advise and assist in the administration of this credit upon request from the California Organized Investment Network or the Department of Insurance.

Implementation Considerations

This bill would require the department to advise and assist the California Organized Investment Network or the Department of Insurance as requested. Advise and assist are undefined and could lead to broad interpretation as to what could be requested of the department. Amendments 1 and 2 would allow the department to advise and assist in a manner that is permissive rather than required.

ECONOMIC IMPACT

Revenue Estimate

Based on data and assumptions discussed below, this bill would result in revenue losses under the Personal Income Tax (PIT) and Bank and Corporation Tax (B&CT) Laws as follows.

Estimated Revenue Impact of AB 874		
As Amended July 3, 2001		
[\$ In Millions]		
2001-02	2002-03	2003-04
minor loss	-\$2	-\$2

Minor loss is less than \$500,000.

Revenue Discussion

The revenue impact of this bill would be determined by the amount of qualified investments in community development financial institutions located within California.

Revenue losses are primarily the result of extending the expiration date an additional five years. Maximum qualified investments in any calendar year are still limited in the aggregate to \$10 million. By limiting qualified investments, the maximum credits allocated in any one year cannot exceed \$2 million. Preliminary tax return data indicates taxpayers have claimed \$2 million in tax credits under the PIT and B&CT Laws for the 1999 taxable year.

LEGISLATIVE STAFF CONTACT

Roger Lackey
Franchise Tax Board
845-3627

Brian Putler
Franchise Tax Board
845-6333

Analyst Roger Lackey
Telephone # 845-3627
Attorney Patrick Kusiak

FRANCHISE TAX BOARD'S
PROPOSED AMENDMENTS TO AB 874
As Amended July 3, 2001

AMENDMENT 1

On page 8, line 28 strikeout "shall" and insert:

may

AMENDMENT 2

On page 11, line 38 strikeout "shall" and insert:

may