ANALYSIS OF ORIGINAL BILL

Author:	SR & T Committee	Analyst:	Darrine Distefano	Bill Number:	SB 1186
Related Bills:	See Legislative History	Telephone:	845-6979	Introduced Date:	02-28-2001
		Attorney:	Patrick Kusiak	Sponsor:	Franchise Tax Board

SUBJECT: AB 1843 Clean-Up to Eliminate Reference to "Income Year" in the Income Tax Law

SUMMARY

This bill would delete an obsolete term from the income tax laws administered by the Franchise Tax Board (FTB).

This bill also would make other changes initiated by Legislative Counsel to substitute the term "Workforce Investment Act of 1998" for "Job Training Partnership Act" in several laws regarding economic development areas.

PURPOSE OF THE BILL

FTB is sponsoring this bill as a technical measure to clean up the law and make the use of terms consistent.

EFFECTIVE/OPERATIVE DATE

This bill would become effective January 1, 2002, and would apply to taxable years beginning on or after that date. The bill specifies chaptering rules in the case any section of this bill overlaps with another bill during the 2001 calendar year.

POSITION

Support.

The Franchise Tax Board voted at its December 18, 2000, meeting to sponsor the language introduced in this legislation related to replacing the phrase "income year" with the phrase "taxable year".

Summary of Suggested Amendments

Amendment 1 has been provided to make a technical correction.

Board Position:			Department Director	Date
X S	NA	NP	Gerald H. Goldberg	03/26/01
SA	O	NAR		
N	OUA	PENDING		

ANALYSIS

BACKGROUND

The franchise tax is imposed on a corporation for the privilege of exercising its corporate franchises in this state. Under prior state law, the franchise tax was measured by the income of the corporation in the prior year. The period for which the income was measured was called the "income year" and the period for which the tax was paid was the "taxable year."

Prior to January 1, 2000, when a corporation incorporated, qualified to transact business, or began doing business in the state, the franchise tax for its first taxable year was the prepaid minimum franchise tax. A corporation's income for the first year formerly served as the measure of the tax for the second taxable year, and the income of each succeeding year served as the measure of tax for the next following year. Thus, the income year proceeded the taxable year of the corporation by one year.

AB 1843 (Ackerman, Stats. 2000, Ch. 862), sponsored by the Franchise Tax Board, eliminated the term and concept of "income year" from the Personal Income Tax Law (PITL), the Administration of Franchise and Income Tax Laws (AFITL) and the Bank and Corporation Tax Law (B&CTL). The sole purpose of AB 1843 was to simplify the law; the actual amount of tax and the timing of the payment did not change.

AB 1843 contained language to prevent chaptering issues with other bills. The language specified that if any other act was enacted that amended one or more of the same code sections as AB 1843, that act would prevail for those code sections. As a result, 10 code sections from AB 1843 that were "chaptered out" by other bills still contain "income year" rather than the appropriate "taxable year." In addition, there was a new code section added to the Revenue and Taxation Code by another bill that contained the term "income year" and five code sections that were inadvertently omitted from AB 1843.

STATE LAW

As a result of AB 1843, the franchise tax, like the income tax[1], is now computed based on the net income for the taxable year, instead of based on the net income of the preceding income year. To the extent a provision of law refers to a calendar year or fiscal year beginning prior to January 1, 2000, upon the basis of which net income is computed, the term "taxable year" means "income year" under prior law.

Under the Government code, California has four types of economic development areas (EDAs):

- Enterprise Zones,
- Local Agency Military Base Recovery Areas (LAMBRA),
- Targeted Tax Area (TTA), and
- Manufacturing Enhancement Areas (MEA).

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[1] Under California law, the corporate income tax is imposed on corporations that are not doing business in California but are receiving income from California sources that is taxable in the year received or accrued. Thus, for corporate income tax purposes the period of the income measurement year and the period of the taxable year have always coincided.

Under the Revenue and Taxation Code**,** existing state law provides special tax incentives for taxpayers conducting business activities within these EDAs. Depending on the type of EDA, these incentives may include a sales or use tax credit, hiring credit, business expense deduction, special net operating loss treatment, and net interest deduction. In addition, a wage credit may be claimed by specified employees of businesses operating within an enterprise zone.

To determine whether an employee qualifies for an EDA hiring credit, the laws reference the federal Job Training Partnership Act (JTPA). Since the JTPA has been replaced by the Workforce Investment Act of 1998, state law currently references obsolete federal law.

<u>THIS BILL</u>

This bill would replace the obsolete term “income year” with “taxable year” in all appropriate Revenue and Taxation Code sections administered by the department.

This bill also would replace the obsolete reference to the "JTPA" with the current "Workforce Investment Act of 1998" in the hiring credits for corporate taxpayers in enterprise zones, LAMBRAs, and MEAs.

<u>IMPLEMENTATION CONSIDERATIONS</u>

Implementation of this bill would occur during the department’s normal annual system update.

<u>TECHNICAL CONSIDERATIONS</u>

Amendment 1 is provided to correct the reference from “taxable” to “income” in one law where the obsolete term should be retained for historical reference.

LEGISLATIVE HISTORY

AB 1843 (Ackerman, Stats. 2000, Ch. 862), sponsored by the Franchise Tax Board, eliminated the term and concept of “income year.”

AB 641 (Briggs, 2001/2002) makes several changes to the TTA laws, including substituting the term from "JTPA" to "Workforce Investment Act of 1998" in the TTA hiring credit. This bill is currently in Assembly Revenue and Taxation Committee.

OTHER STATES’ INFORMATION

Information on other states is not relevant as this bill makes minor technical changes for code maintenance purposes.

FISCAL IMPACT

This bill would not impact the department’s costs.

ECONOMIC IMPACT

This bill would not impact the state's income tax revenue.

ARGUMENTS

This bill would remove an obsolete term from various sections within the Code and replace it with the appropriate term. Maintaining the Code to delete obsolete terms reduces taxpayer confusion.

LEGISLATIVE STAFF CONTACT

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FRANCHISE TAX BOARD'S
PROPOSED AMENDMENTS TO SB 1186
As Introduced February 28, 2001

AMENDMENT 1

On page 26, line 14, strikeout "taxable" and insert:

"income"