

# SUMMARY ANALYSIS OF AMENDED BILL

Franchise Tax Board

Author: Haynes Analyst: Jane Tolman Bill Number: SB 1275

Related Bills: See Prior Analysis Telephone: 845-6111 Amended Date: 04-01-2002

Attorney: Patrick Kusiak Sponsor: \_\_\_\_\_

**SUBJECT:** Gun Safe Or Other Firearms Safety Equipment Credit

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 January 15, 2002.

FURTHER AMENDMENTS NECESSARY.

DEPARTMENT POSITION CHANGED TO SUPPORT, IF AMENDED.

REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED January 15, 2002 STILL APPLIES.

OTHER - See comments below.

## SUMMARY

This bill would create a tax credit for the purchase of a gun safe or other firearm safety equipment.

## SUMMARY OF AMENDMENTS

The April 1, 2002, amendments limited the credit amount to a maximum of \$1,000.

Except for the new revenue estimate and board position, the remainder of the department's analysis of the bill as introduced January 15, 2002, still applies. The policy concerns still apply and are included below for convenience.

## POSITION

Support, if amended.

At its March 25, 2002, meeting, the Franchise Tax Board voted 2-0 to support this bill if it was amended to address the department's policy concerns.

Board Position:

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

Legislative Director

Date

Brian Putler

5/8/02

## **ECONOMIC IMPACT**

### Revenue Estimate

Based on data and assumptions discussed below, this bill would result in the following revenue losses.

Estimated Revenue Impact of SB 1275 As Amended 4/1/02 [\$ In Millions]		
2002-03	2003-04	2004-05
-\$32	-\$37	-\$39

Underlying cost information has been revised since the original estimate to reflect new information recently obtained. It is assumed that only sales in California of genuine gun safes would qualify for the proposed credit. If sales of other safes also qualify for the proposed credit, revenue losses would be substantially higher.

### Revenue Discussion

The revenue impact of this bill would be determined by the number of new or used gun safes and/or the number, type, and quality of other firearm safety equipment purchased by taxpayers, and the amount of credits that can be applied to reduce tax liabilities.

For the first tax year for the proposed credit, 2002, it is projected that taxpayers would purchase 761,400 qualifying units for an average, composite tax credit of \$42. Specifically, taxpayers would purchase 15,400 gun safes, 46,000 gun cabinets/boxes, and 700,000 locking devices with credits averaging \$984, \$150, and \$20 each, respectively. Gun safe is assumed to include gun safes and lighter gauge metal gun cabinets and boxes. Retail dealers have indicated that a gun safe can cost from \$600 up to a few thousand dollars, gun cabinets cost around \$350, and gun boxes start at about \$100.

For the gun safe component of the revenue estimate for the bill as introduced, the projected number of gun safes sold each year in California (15,400 for 2002) was multiplied by an assumed average cost of \$750. Due to the proposed credit cap in this amendment, sales distribution data by Manufacturer's Suggested Retail Price (MSRP) was obtained from various gun safe manufacturers. Sales distribution data clearly indicated using an assumed average cost of \$750 was too low.

Current sales distribution data indicated that approximately 8% of sales fall within the MSRP range of \$600 to \$1,000, 80% within \$1,000 to \$2,500, and 12% at more than \$2,500. Multiplying an average cost for each MSRP range derived a higher estimate for this component of the estimate despite the proposed cap of \$1,000. The average cost for each MSRP range was \$800, \$1,700, and \$3,500, respectively.

As the cost of gun cabinets, gun boxes, and other safety equipment is considerably less than the proposed credit cap in this amendment, these other components included in total losses in the table remain the same as for the bill as introduced.

It is expected that the vast majority of reported tax credits would be fully applied against tax liabilities resulting in minor carryover credits to subsequent years.

Revenue estimates provided in the table are fiscal year impacts that reflect the cash-flow timing of changes in tax originally developed on a tax year liability basis. Liability year estimates are converted to a fiscal year basis to account for the timing of changes in withholding and estimated tax payments made during the tax year by affected taxpayers as well as changes in final payments at the time returns are filed.

## **ARGUMENTS/POLICY CONCERNS**

This bill would allow a credit for the purchase of a gun safe regardless of whether the safe was used to store firearms, or other valuable items such as jewelry.

Most credits relating to the purchase of property require that:

- the property be purchased and used within California;
- the taxpayer recapture the credit if the property is subsequently disposed of or removed from the state.

In order to promote gun safety in California, the author may wish to add these criteria.

This bill does not specify a repeal date or limit the number of years for the carryover period. Credits typically are enacted with a repeal date to allow the Legislature to review their effectiveness periodically. However, even if a repeal date were added, the department would be required to retain the carryover on the tax forms indefinitely because an unlimited credit carryover period is allowed. Recent credits have been enacted with a carryover limitation since experience shows credits are typically used within eight years of being earned.

This bill would provide a tax benefit for sole proprietorships, partnerships, certain limited liability companies, and real estate mortgage investment conduits under the PITL that would not be provided to corporations. Thus, this bill would provide different treatment based solely on business entity type.

Conflicting tax policies come into play whenever a credit is provided for an item that is already deductible as a business expense. Providing both a credit and allowing the full amount to be deducted would have the effect of providing a double benefit for that item. On the other hand, disallowing the expense to eliminate the double benefit creates a difference between state and federal taxable income, which is contrary to the state's general federal conformity policy. While not all taxpayers who purchase a safe or firearm safety equipment qualifying for the credit under this bill will be able to treat the purchase as a deductible expense (since they might purchase it for personal use in their house), some taxpayers will be able to claim both a \$1,000 credit under this bill and also deduct the cost of the item.

## **LEGISLATIVE STAFF CONTACT**

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