Franchise Tax Board

ANALYSIS OF ORIGINAL BILL

Author:	Dunn	Analyst:	Kristina E. North	Bill Number:	SB 73
Related Bills:	See Legislative History	Telephone:	845-6978	Introduced Date:	January 10, 2001
		Attorney:	Patrick Kusiak	Sponsor:	

SUBJECT: Low-Income Housing Credit/Increase Maximum Aggregate Credit Amount to $70 Million

SUMMARY

This bill would increase from $50 million to $70 million the maximum aggregate allocation amount for the low-income housing tax credit in 2001. Beginning in 2002, this bill would adjust the cap annually for inflation.

This analysis does not address the bill's provision regarding the Insurance Tax Law since those provisions would not impact the department's programs and operations.

PURPOSE OF THE BILL

According to the author's staff, this bill would encourage more construction of low-income housing.

EFFECTIVE/OPERATIVE DATE

As a tax levy, this bill would be effective immediately upon enactment and operative for taxable years beginning on and after January 1, 2001.

POSITION

Pending.

ANALYSIS

FEDERAL/STATE LAW

Current federal law allows a credit to an owner of a qualified low-income housing project that is constructed, rehabilitated, or acquired. The credit amount varies depending on several factors, including when the housing was placed in service and whether it was federally subsidized. The credit is claimed over ten years. A state authority created to oversee the process must allocate the credit.

Current state law conforms to federal law except that the state credit is claimed over four years, limited to projects located in California, and allocated in amounts that may vary. Prior to 1998, the California Tax Credit Allocation Committee (CTAC) was allowed to allocate an annual maximum of $35 million, plus unused or returned credit amounts from prior or current years. The $35 million was increased to $50 million for calendar years 1998 and thereafter. The CTAC provides listings of qualified taxpayers to the Franchise Tax Board.

Board Position:			Department Director	Date
____ S	____ NA	____ NP	Gerald H. Goldberg	02/20/01
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THIS BILL

Under the Personal Income Tax Law (PITL) and the Bank and Corporation Tax Law (B&CTL), **this bill** would increase to $70 million the maximum annual aggregate dollar amount for the low-income housing credit beginning in 2001. This limitation includes any allocations under the Insurance Tax Law. Beginning in 2002, this bill would adjust the $70 million limit annually for inflation when the federal Consumer Price Index (CPI) for the preceding calendar year exceeds the CPI for calendar year 2001. This bill also would make minor technical changes.

IMPLEMENTATION CONSIDERATION

Implementation of this bill would not significantly impact the department's programs and operations.

LEGISLATIVE HISTORY

AB 1626 (Torlakson & Migden -Stats. 2000, Ch. 3) increased the maximum annual allocation for the low-income housing credit to $50 million for each calendar year after 1999.

AB 97 (Torlakson - Stats. 1999, Ch. 893) provided that the chapter authorizing the CTAC to allocate the credit would remain in effect as long as the federal low-income housing credit is in effect.

AB 168 (Torlakson - Stats. 1998, Ch. 9) increased the maximum annual aggregate allocation to $50 million for calendar years 1998 and 1999 only.

OTHER STATES' INFORMATION

Massachusetts, Michigan, Missouri, and New York have low-income housing credits that generally are based on the federal low-income housing credit. These states limit their aggregate state low-income housing credit as follows:

- Massachusetts - the sum of the lesser of 50% of the federal per capita low-income housing tax credits or $4 million plus any unused or returned low-income housing tax credits from preceding calendar years.
- Michigan - $1.25 multiplied by the state's population determined by the most recent census plus any unused or returned low-income housing credits from preceding calendar years.
- Minnesota - $1.25 multiplied by the state's population as provided to by the state demographer.
- New York - $2 million.

None of these states have a maximum aggregate dollar amount adjusted for inflation. These states were reviewed because of the similarities in their tax laws to California's tax laws.

FISCAL IMPACT

This bill would not significantly impact the department's costs.

ECONOMIC IMPACT

Tax Revenue Estimate

The revenue losses under the B&CT and PIT laws are estimated to be as follows:

Estimated Revenue Impact of SB 73					
Assumed Enactment After 6/30/01					
(In Millions)					
2001/2002	2002/2003	2003/2004	2004/2005	2005/2006	2006/2007
-	(Minor)	($4)	($10)	($16)	($19)

It is anticipated that approximately 70% of the revenue loss would be attributable to B&CT with the balance to PIT. Additionally, this estimate does not consider the possible changes in employment, personal income, or gross state product that could result from this proposal.

Tax Revenue Discussion

The revenue impact of this bill would depend upon the amount of additional credit allocations for low-income housing made by CTAC and additional credits used in subsequent years upon completion of projects.
The revenue estimate reflects applied credits in the respective years and was determined in several steps. First, the projected dollar amount of approved credits was obtained from CTAC. According to CTAC, in 1999, approved credits amounted to $50 million. Assumptions were made that if the increase from $50 to $70 million was implemented for the calendar year 2001 and each calendar year thereafter, all of the credit allocation ($70 million) for low-income housing would be allocated. Second, the amount of credit applied against available tax liabilities was based on information from CTAC and actual tax return data for reported low-income housing credits. According to CTAC, the majority of the low-income housing credits are normally allocated in advance of project completion and would most likely not be claimed for tax purposes until the second and third year after the credit is allocated by CTAC. The aggregate allocated credit amounts were adjusted for inflation measured by the projected increase in the federal CPI for each year beginning in calendar year 2002.

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