

ANALYSIS OF ORIGINAL BILL

Franchise Tax Board

Author: McClintock Analyst: Roger Lackey Bill Number: SB 77

Related Bills: None Telephone: 845-3627 Introduced Date: 01-11-2001

Attorney: Patrick Kusiak Sponsor: _____

SUBJECT: Ratepayer Relief Rebate Act Of 2001

SUMMARY

This bill would give back \$5.3 billion to California taxpayers, in the form of a rebate that would be \$200 or \$530 depending on the taxpayer's filing status.

PURPOSE OF THE BILL

According to the author's staff, the purpose of this bill is to provide relief to individuals who are California taxpayers.

EFFECTIVE/OPERATIVE DATE

As an urgency measure, this bill would be effective immediately upon enactment and would require the allocation of the rebates to occur in May of 2001.

POSITION

Pending.

Summary of Suggested Amendments

Department staff is available to work with the author's office to resolve the implementation and policy considerations discussed below.

ANALYSIS

THIS BILL

This bill would appropriate \$5.3 billion to be paid to individuals that are California taxpayers for the stated intent of providing relief from the rising cost of energy and helping to stimulate the California economy.

Payments would be distributed by the State Controller's office in the amount of \$530 for each taxpayer using the filing status of married filing joint or head of household, and \$200 for taxpayer filing single, married filing separately, or as a surviving spouse. No taxpayer would be allowed to receive more than a single payment.

Board Position:

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

Department Director

Date

Gerald H. Goldberg

03/09/2001

This bill would apply to taxpayers who filed a tax return in the 2001 calendar year by May 1st, including the automatic extension.

In addition, **this bill** would provide several declarations and findings by the Legislature regarding the rising cost of energy.

IMPLEMENTATION CONSIDERATIONS

This bill would apply to any taxpayer filing a return by May 1, 2001, whether the return is an original return for 2000 or a properly filed amended return for any prior year. Information on returns processed during the 2001 calendar year will not be available until late 2001. It would be difficult for the department to provide 2001 filing season information that would allow the State Controller's office to issue rebates by May of 2001.

The filing date for personal income taxes for calendar year 2000 is April 15, 2001. Allocation of the \$5.3 billion appropriation would begin in May of 2001. Therefore, this bill would overlap into the income tax filing season and the State Controller's dispersing of income tax refunds. This would cause the department to refocus its resources during tax filing season to provide the required taxpayer information. In addition, it is not known if the State Controller's office would have the capacity to disperse both income tax refunds and the rebates provided for by this bill at the same time.

Given the fixed amount of funds and the expected number of taxpayers (13.8 million) that would be eligible for relief under this bill, it is unclear if the \$5.3 billion appropriation would be sufficient to satisfy the specified allocation to **all** eligible taxpayers. In addition, it is unclear what would occur once the appropriation was depleted.

The bill would limit the rebate to individuals who file a tax return. A significant number of California residents are not required to file a California income tax return due to their income levels. These individuals may file a tax return to obtain the rebate, increasing the number of returns received by the department.

However, since many taxpayers have no filing requirement there is no guarantee these low-income residents would file, potentially resulting in the exclusion of a portion of the population from receiving this bill's benefit. The author should include those individuals who received assistance under the Homeowners and Renters Assistance Program, taxpayers who filed a federal income tax return to claim the Earned Income Credit, and individuals who receive Social Security benefits.

Since the bill is open to any individual that files a tax return by May 1, 2001, this bill could be vulnerable to those who file fraudulent returns. These filers may file multiple returns with different names, addresses, etc., to obtain the rebate. The author may consider adding language to the bill to discourage fraudulent returns.

Additionally, the bill does not prevent the payment of a rebate to a taxpayer that can be claimed as a dependent by another taxpayer. For example, a minor child who has income from baby-sitting or lawn mowing may separately file for the rebate.

Finally, the bill allows rebates of \$530 dollars to each taxpayer filing married joint and head of household, but allows only \$200 to a taxpayer filing married separate. As a result, a married couple filing a joint return will receive rebates totaling \$1060, whereas a married couple filing separately will receive rebates totaling \$400. Generally, certain incomes, credits, and expenses of a married couple that file a joint return are divided equally for married taxpayers that file separately. As written, this bill would penalize a married couple that chooses to file married separate by \$660 (the difference between \$1060 and \$400).

In addition, part-year residents or nonresident taxpayers would receive the full benefit of this bill even though they may not be experiencing California's energy crisis.

As illustrated in the implementation considerations above, it does not appear that this bill would be effective in allocating the rebates to the author's targeted group. There is no direct correlation between utility consumption bills and taxpayers filing status.

Additional resources would be necessary to prevent the fraudulent filing of returns for the purpose of obtaining the rebate.

OTHER STATES' INFORMATION

This bill is unique to the energy crisis currently existing in this state.

FISCAL IMPACT

The costs, to implement a one time rebate for the 2001 calendar year, are estimated to be **\$8.4 million, 124.0 Pys for Fiscal Year 2000-01** and **\$1.8 million, 23.3 PYs for Fiscal Year 2001-02**. This is for the current filers and new filers. In addition, there will be an additional cost for Fiscal Year 2001-02 if the rebate is allowed to **non-resident claimants**. If allowed there will be **an additional \$1.9 million, 26.0 PYs for Fiscal Year 2001-02**.

The bill will need to be amended to add supplemental appropriations for FTB's Fiscal Year 2000-01 budget and to appropriate funds for FTB's Fiscal Year 2001-02 budget to administer the rebate program.

An appropriation would be necessary in this bill to add supplemental appropriations for FTB's Fiscal Year 2000-01 budget and to appropriate funds for FTB's Fiscal Year 2001-02 budget to administer the rebate program.

ECONOMIC IMPACT

According to departmental projections, it is estimated that approximately 13.8 million taxpayers are currently projected to file tax returns for the 2000 tax year. Based on these projections it is estimated that all of the \$5.3 billion appropriated would be used and still fall short of the amount needed to satisfy rebates for all projected filers. Based on preliminary estimates the current appropriation would be approximately \$60 million short of the amount needed for all projected filers. However, the \$60 million shortfall does not include the approximately two to three million additional filers that do not have a filing requirement, but may file to obtain the rebate.

The discussion provided above is based on the assumption the married filing joint rebate would be \$530 dollars.

ARGUMENTS/POLICY CONCERNS

The \$530 or \$200 amount received by each individual would be considered income by federal law. Therefore, the income received would be required to be reported on the taxpayer's federal income tax return. In addition, since the bill contains no language precluding the amount from California's calculation of adjusted gross income, the rebate amount also would be taxable for California purposes.

In addition, depending on how federal law interprets the rebate, a form 1099 may need to be issued to each recipient. Form 1099 is a document detailing income amounts received by the taxpayer. The party that dispersed the income to the taxpayer issues the form.

LEGISLATIVE STAFF CONTACT

Roger Lackey
Franchise Tax Board
845-3627

Brian Putler
Franchise Tax Board
845-6333