Franchise Tax Board

SUMMARY ANALYSIS OF AMENDED BILL

Author: Ortiz | Analyst: Darrine Distefano | Bill Number: SB 75XX

Related Bills: See Prior Analysis | Telephone: 845-6458 | Amended Date: 09-05-2001

Attorney: Patrick Kusiak | Sponsor:

SUBJECT: Energy Efficient Products or Equipment Loan Interest Deduction

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

X AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

X AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as amended August 27, 2001.

X FURTHER AMENDMENTS NECESSARY.

____ DEPARTMENT POSITION CHANGED TO ____________.

X REMAINDER OF PREVIOUS ANALYSIS OF BILL AS AMENDED August 27, 2001 STILL APPLIES.

____ OTHER - See comments below.

SUMMARY

This bill would allow a deduction for interest paid on any loan or financed indebtedness from a utility company to purchase energy efficient equipment and products for California residences.

SUMMARY OF AMENDMENT

The September 5, 2001, amendment would allow the entire amount of the interest paid to be deducted as an itemized deduction to calculate taxable income without limitations.

The amendments do not resolve the department's technical considerations with respect to the bill. Accordingly, the unresolved technical considerations are provided below for convenience. Also, since the September 5, 2001, amendments change how the deduction is claimed, a new revenue estimate is provided below. The remainder of the department's analysis of the bill as amended August 27, 2001, still applies.

POSITION

Support.

At its June 27, 2001 meeting, the Franchise Tax Board voted 2-0 to support this bill, with Annette Porini, on behalf of Member B. Timothy Gage, abstaining.

Board Position:			Legislative Director	Date
X S	NA	NP		
SA	O	NAR	Brian Putler	09/19/2001
N	OUA	PENDING		

TECHNICAL CONSIDERATIONS

The bill provides an exception to the state's conformity to the federal definition of "miscellaneous itemized deductions." This exception is provided in the section defining "taxable income" and should be moved to the section regarding deductions.

The bill's requirement for a public utility to issue a federal income tax Form 1098 would be inappropriate. State law cannot prescribe the use of a federal form. A federal Form 1098 is used to report $600 or more of mortgage interest received during the year. The author may wish to amend the bill to delete the requirement to issue a Form 1098 while retaining provisions to have the public utility issue a form similar to the Form 1098. In addition, this reporting requirement would be more appropriately located in the Administration of Franchise and Income Tax (AFTIL) with other reporting requirements. Department staff is available to work with the author's office to assist with drafting language for this requirement.

The language in the bill encouraging public utilities to notify their customers about the interest deduction provided by the bill or provided on a home equity or home improvement loan may be more appropriately located in the Public Utilities Code.

ECONOMIC IMPACT

Revenue Estimate

Based on data and assumptions discussed below, this bill would result in negligible revenue losses on the order of $250,000 annually beginning in 2001-02.

Revenue Discussion

The revenue impact of this bill would be determined by the amount of deductible interest on loans from public owned utilities for energy efficient products or equipment not otherwise deducted as home equity financing and the marginal tax rate of taxpayers incurring such interest.

Projected revenue losses are increased from the August 27, 2001, amendment of losses less than $100,000 annually to losses of $250,000 annually.

Only one significant municipal utility district in California was identified as lending money to its customers to encourage and enable them to acquire and install energy efficient products or equipment at a qualified residence. According to staff at this municipal utility district, outstanding loans currently total roughly $70 million. Each year, some level of new loans is funded and a certain level of existing loans is paid off. Once funded, borrowers generally repay loans, on average, over a period of 48 months. This utility district currently offers fixed interest rates that vary according to the amount of the loan. The overall average interest rate is estimated at 9%. By using personal income tax sample data and a series of assumptions as a proxy, deductible interest would range from between $2 million and $3 million. Assuming an average marginal tax rate of 6% for taxpayers who borrow, revenue losses under current conditions would range from between $120,000 and $180,000. If due to the enactment of the proposed deduction, other utilities initiated similar loan programs, revenue losses potentially would increase in subsequent years.

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