

# SUMMARY ANALYSIS OF AMENDED BILL

Franchise Tax Board

Author: Ridley-Thomas, et al. Analyst: Rachel Coco Bill Number: AB 2106

Related Bills: See Prior Analysis Telephone: 845-4328 Amended Date: July 22, 2004

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

**SUBJECT:** California Tax Expenditure Accountability Act/Tax Expenditures Report

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/amended \_\_\_\_\_.

FURTHER AMENDMENTS NECESSARY.

DEPARTMENT POSITION CHANGED TO \_\_\_\_\_.

REMAINDER OF PREVIOUS ANALYSIS OF BILL AS AMENDED

May 17, 2004, STILL APPLIES.

OTHER - See comments below.

## SUMMARY

This bill would require the Department of Finance (DOF) to submit a report on tax expenditures to the Legislature.

## SUMMARY OF AMENDMENTS

The July 22, 2004, amendments removed language that would have required several reports regarding tax expenditures. The amendments also removed language that would have added criteria to be included in new legislation related to tax expenditures. As a result of the amendments, the "This Bill" portion of the analysis of the bill as amended May 17, 2004, has been revised. The implementation concerns remain and are included below.

## EFFECTIVE/OPERATIVE DATE

This bill would be effective January 1, 2005. However, the bill states that DOF shall make its first report to the Legislature on or before September 15, 2005.

## POSITION

Neutral. On June 10, 2004, the Franchise Tax Board voted 2-0 to take a neutral position on this bill.

Board Position:

\_\_\_\_\_ S      \_\_\_\_\_ NA      \_\_\_\_\_ NP  
\_\_\_\_\_ SA      \_\_\_\_\_ O      \_\_\_\_\_ NAR  
 N      \_\_\_\_\_ OUA      \_\_\_\_\_ PENDING

Legislative Director

Date

Brian Putler

8/5/04

## THIS BILL

This bill would repeal an existing provision that requires DOF to provide an annual report to the Legislature on tax expenditures containing specified information.

This bill would create a new provision to require DOF to submit to the Legislature a report on tax expenditures currently in effect, including those under the Personal Income Tax Law, the Corporation Tax Law, and the Sales and Use Tax Law. The report would be required to contain the following, to the extent feasible:

- a description of each tax expenditure,
- the statutory, constitutional, or other legal authority for each tax expenditure,
- the original intent of each tax expenditure, and
- an estimate of revenue loss for the most recent fiscal year for each tax expenditure.

In addition, DOF would be required to include information in the report, based on information provided by the Franchise Tax Board (FTB), regarding tax expenditures that are separately identified on returns or claims, to the extent feasible. Specifically:

- the number of tax returns or taxpayers affected by the tax expenditure, and
- the distribution of each tax expenditure, as follows:
  - for expenditures available to businesses, by size of the business or industry, by size of total receipts, and by type of business or industry, and
  - for expenditures under the PITL, by adjusted gross income brackets.

This bill would require DOF to provide its tax expenditure report to the Legislature on or before September 15, 2005, and on or before September 15 of each odd-numbered year thereafter. The report would also be provided in even-numbered years, but may be limited to new or revised tax expenditures and to significant updates, revisions, or corrections of information in the prior year's report.

## IMPLEMENTATION CONSIDERATIONS

It is unclear what is intended by the phrase "size of the business or industry." The term "size" could be determined using varying criteria. For instance, size could mean total number of employees, total income, or even gross receipts. Thus, the department would need to make assumptions regarding the size of business, which may or may not reflect the author's intent.

FTB's "distributional information" is based on a tax-year basis, but the "revenue impacts" as required by this bill would be on a fiscal-year basis. Therefore, FTB would be required to create an additional report. However, implementing this bill would not significantly impact the department.

## **LEGISLATIVE STAFF CONTACT**

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