

# SUMMARY ANALYSIS OF AMENDED BILL

Franchise Tax Board

Author: Bates Analyst: Rachel Coco Bill Number: AB 2325

Related Bills: See Prior Analysis Telephone: 845-4328 Amended Date: April 29, 2004

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

**SUBJECT:** Employer Credit For Wages Paid To Disabled Persons

DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced February 19, 2004.

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 INTRODUCED February 19, 2004,  
 STILL APPLIES.

\_\_\_\_\_ OTHER - See comments below.

## SUMMARY

This bill would provide employers an income tax credit for wages paid to disabled employees.

## SUMMARY OF AMENDMENTS

The April 29, 2004, amendments resolved most of the implementation and policy concerns as discussed in the analysis of the bill as introduced February 19, 2004. The remaining implementation concern is included below. In addition, as a result of the amendments, the department has identified an additional policy concern, which is also included below.

The "This Bill" and "Economic Impact" portions as previously discussed have been revised and are included below. The remainder of the analysis of the bill as introduced February 19, 2004, still applies.

## POSITION

Pending.

Board Position:

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

Legislative Director

Date

Brian Putler

5/7/04

## **ANALYSIS**

### **THIS BILL**

This bill would provide a tax credit in an amount equal to 10% of the wages paid to an eligible employee.

The bill would define the term "eligible employee" to mean a disabled individual employed by the taxpayer and performing services within California.

The bill would define the term "disabled individual" to mean any individual who has a physical or mental impairment that substantially limits one or more major life activities for which the individual receives compensation under a program administered by an agency of this state.

This bill would require the taxpayer to obtain documentation that would establish the eligibility of an employee and provide that documentation upon request to the Franchise Tax Board (FTB).

The bill specifies that the credit would only be allowed for wages paid or incurred for an employee's first consecutive 24 months of employment. The bill would limit the amount of the credit to \$250 dollars a month or \$3,000 dollars for the first 12 months of employment and \$167 dollars a month or \$2,000 dollars for the second 12 months of employment.

This bill specifies that no credit or deduction would be allowed for the same wages for which the credit was allowed.

This bill would allow any unused credit to be used in the following year, and succeeding seven years, until the credit is exhausted.

This bill specifies that the credit would remain in effect until December 1, 2008, and as of that date is repealed.

### **IMPLEMENTATION CONSIDERATIONS**

This bill would require the taxpayer to obtain documentation that would establish an employee's eligibility. However, the bill lacks language that would designate an agency as the provider, and thus certifier, of the documentation. Typically, credits involving areas outside of the expertise of the department are certified by an agency that possesses the relevant expertise. The author may wish to amend the bill to require that the employer obtain the documentation, possibly from a state agency familiar with the disability statutes, certifying the eligibility of each qualifying employee.

### **POLICY CONCERNS**

The bill limits the credit to taxpayers that employ disabled individuals receiving compensation under a program administered by a California agency. This requirement is discriminatory against disabled individuals receiving compensation through federal programs, including those receiving veteran's assistance. Thus, this bill would provide differing treatment based solely on the source of compensation.

## ECONOMIC IMPACT

### Revenue Estimate

This bill would result in the following revenue loss:

Revenue Impact of AB 2325 Enactment Assumed After June 30, 2004 (\$\$ Rounded to Nearest Ten-thousand)			
Fiscal Years	2004/2005	2005/2006	2006/2007
Revenue Impact	-\$600,000	-\$630,000	-\$660,000

### Revenue Discussion

According to a report by the Employment Development Department, California employs roughly 2 million individuals with a disability. Many disabled individuals receive income assistance through federal/state funding programs such as the Supplemental Security Income (SSI) or State Supplementary Payment (SSP) program. However, based on a February 2002, study conducted by the Department of Social Services, less than 1% of SSI/SSP recipients had income in the form of wages. Roughly 4,200 individuals had any earnings, and a large number of those individuals (1,600) had monthly earnings under \$200 dollars.

It is assumed that fewer than 1,000 disabled individuals are on SSI/SSP receiving roughly \$10,000 year in wages for any given year. Since qualified wages can include wages paid to an eligible employee for the first twenty-four months of employment, some employers will be entitled to wages paid to an employee already on the payroll as of January 1, 2004. As such, the estimate for a single year is doubled based on the combined wages of 2,000 qualified disabled employees with less than 24 months of employment with a qualified taxpayer by the end of tax year 2004.

Since this bill would allow a credit equal to 10% of wages paid, the revenue estimate was computed using an estimated average annual wage base of \$10,000, producing an available credit estimated at \$1,000 per taxable year (\$10,000 wage base x 10% credit allowed = \$1,000). Next, the net tax benefit must be reduced by \$700 (7% of \$10,000) representing the tax effect of not being allowed both a deduction and a credit for the same wage expense (\$1,000 available credit - \$700 tax effect = \$300 total credit amount). As such, the net revenue loss is equal to \$300 per eligible employee for a maximum of 2,000 qualified disabled employees in any given year, resulting in a net revenue loss of roughly \$600,000 for the first year. This figure is projected to grow at a rate of 5% per year in subsequent years.

## LEGISLATIVE STAFF CONTACT

Rachel Coco  
Franchise Tax Board  
845-4328  
[rachel.coco@ftb.ca.gov](mailto:rachel.coco@ftb.ca.gov)

Brian Putler  
Franchise Tax Board  
845-6333  
[brian.putler@ftb.ca.gov](mailto:brian.putler@ftb.ca.gov)