Franchise Tax Board

SUMMARY ANALYSIS OF AMENDED BILL

Author: Correa | Analyst: Norm Catelli | Bill Number: AB 2365

Related Bills: See Prior Analysis | Telephone: 845-5117 | Amended Date: May 13, 2004

Attorney: Patrick Kusiak | Sponsor:

SUBJECT: Employer Hiring Qualified Employee Credit/Manufacturing Trade Or Business/FTB, BOE & EDD Assist LAO In Preparing Report Regarding Impact Of Credit

__X__ DEPARTMENT AMENDMENTS ACCEPTED. Some amendments reflect suggestions of previous analysis of bill as amended April 20, 2004.

__X__ 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 amended.

_____ FURTHER AMENDMENTS NECESSARY.

_____ DEPARTMENT POSITION CHANGED TO __________________________.

__X__ REMAINDER OF PREVIOUS ANALYSIS OF BILL AS AMENDED APRIL 20, 2004, STILL APPLIES.

_____ OTHER - See comments below.

SUMMARY

This bill would create a manufacturing jobs credit.

SUMMARY OF AMENDMENTS

The May 13, 2004, amendments refined the manufacturing jobs credit by limiting the credit amount to the increase in the number of taxpayer's employees in a taxable year who have not been previously employed by the taxpayer.

The May 13, 2004, amendments resolved the technical considerations discussed in the department's previous analysis. A new "Economic Impact" discussion is provided. Except for the items below, the remainder of the department's analysis of the bill as amended April 20, 2004, still applies. The remaining implementation consideration is included below for convenience.

POSITION

No position.

Board Position:			Legislative Director	Date
_____ S	_____ NA	_____ NP		
_____ SA	_____ O	_____ NAR	Brian Putler	6/18/04
_____ N	_____ OUA	__X__ PENDING		

IMPLEMENTATION CONSIDERATION

The bill defines a qualified employee as an employee who provides services that are directly related to the conduct of the taxpayer's manufacturing trade or business. However, the bill does not define "directly related," which could lead to disputes between taxpayers and the department regarding whether an employee would qualify for the credit. It is also unclear whether this requirement is designed to prevent non-manufacturing jobs of the qualified taxpayer (i.e., administrative, accounting, legal, or secretarial) from qualifying for this credit, or whether something else is intended.

ECONOMIC IMPACT

Revenue Estimate

The amendments reduced the revenue losses from $150 million to $80 million for fiscal year 2004/05. The revenue effects of this proposal over the initial three-year period are projected to be as follows:

Fiscal Year Cash Flow Impact Enactment Assumed After 6/30/04 $ Millions		
2004/05	2005/06	2006/07
- $80	- $135	- $175

This analysis does not take into account any change in employment, personal income, or gross state product that may result from this bill becoming law.

Revenue Discussion

The May 13, 2004, amendments differ from the previous version in two important ways. The number of employees for which a taxpayer may claim the credit is now limited to the increase, relative to the 2003 tax year, in the number of the taxpayer's employees. Previously, all new hires were eligible even if they were just replacing workers who left the employer. Also, the taxpayer may no longer claim double or triple credit for employees that remain with the taxpayer for more than one year.

According the California Statistical Abstract, more than 1.64 million employees were in manufacturing in California in 2002. Based on an analysis of corporation sample data, it is estimated that approximately two-thirds of these employees work for businesses with increasing employment levels. By imputing a distribution of firm level job growth rates consistent with this ratio, it is estimated that approximately 5% of employees each year represent increases in employment levels at expanding firms. It is assumed that about 80% of these employees will meet the proposed wage and health insurance criteria. Thus, it is estimated that approximately 66,000 employees will be qualified in the first year (1.64 million x 5% x 80%). If the average credit per qualified employee is $1,300, the total amount of credits available will be approximately $85 million (66,000 employees x $1,300 credit). Assuming that employers will only be able to use bout 80% of these credits, the estimated revenue loss would be $68 million ($85 million x 80%) in the 2004 tax year. Assuming that the credit usage rate decreases to 70% in 2005 and 65% in 2006, and allowing for some use of carryover credits, the revenue loss is estimated at $100 million in the 2005 tax year and $140 million in the 2006 tax year. The losses presented in the table above are adjusted to represent fiscal year impacts.

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