Franchise Tax Board

ANALYSIS OF AMENDED BILL

Author:	Maze	Analyst:	Darrine Distefano	Bill Number:	AB 2398
Related Bills:	See Legislative History	Telephone:	845-6458	Amended Date:	May 17, 2004
		Attorney:	Patrick Kusiak	Sponsor:	

SUBJECT: Targeted Tax Areas/Credits/Department of Housing & Community Development Approve Expansion of No More Than 15%

SUMMARY

This bill would make various changes to the Targeted Tax Area (TTA) provisions.

SUMMARY OF AMENDMENTS

The May 17, 2004, amendments deleted the provisions that would have provided a hiring credit to employers and inserted the provisions discussed in this analysis.

The department's prior analysis of the bill as amended May 3, 2004, no longer applies.

PURPOSE OF THE BILL

According to the author's office, the purpose of the bill is to expand TTA benefits to businesses on the border of the TTA that will further enhance the economy of Tulare County.

EFFECTIVE/OPERATIVE DATE

This bill would be effective and operative January 1, 2005.

POSITION

Pending.

ANALYSIS

FEDERAL/STATE LAW

Federal law does not have economic development areas with provisions similar to TTAs. Federal law provides for economic development areas called empowerment zones and enterprise communities, which are eligible to receive two tax incentives: (1) tax-exempt private activity bonds to finance certain facilities; and (2) the "brownsfields" tax incentive, which allows taxpayers to expense (rather than capitalize) certain environmental remediation expenditures. Qualified empowerment zone businesses are allowed an additional $20,000 depreciation expense deduction.

Existing state law, under the Government Code, allows for the designation of a TTA. Using specified criteria regarding unemployment, income levels, poverty levels, and percentages of residents receiving Aid to Families with Dependent Children, Tulare County was designated as a TTA. The designation was made November 1, 1998, and is to remain in effect for 15 years beginning January 1, 1998. This is the only TTA designation made.

Board Position:			Department Director	Date
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Certain taxpayers conducting business activities in a TTA are permitted special tax incentives under the Revenue and Taxation Code. These incentives include a sales or use tax credit, hiring credit, business expense deduction, and special net operating loss treatment. These incentives are also available to businesses operating in an enterprise zone (EZ), Local Agency Military Base Recovery Act (LAMBRA), and Manufacturing Enhancement Area (MEA). Along with the TTA, these areas are collectively known as economic development areas (EDAs).

Beginning in 1984, Technology, Trade, and Commerce Agency (TTCA) administered the EZ Act (which includes the MEA), along with the LAMBRA and TTA program. Due to the elimination of funding for TTCA by the 2003-04 Budget Act, the administration of the EZ Act was transferred to Department of Housing and Community Development (DCHD).

<u>THIS BILL</u>

This bill would remove the reference to TTCA and insert DHCD as the designating authority for TTAs.

This bill would require DHCD to approve expansion of the existing TTA by no more than 15%, if that department determines the increased area meets the necessary criteria to be a TTA (unemployment, income levels, poverty levels, and percentages of people receiving Aid to Families with Dependent Children, based on the 1995-96 Cash Grant Caseload Movement and Expenditures Report). It would also require the governing body of each city, county, and city and county in which the TTA is located to approve an ordinance or resolution approving the proposed expansion.

This bill would require the Tulare County Economic Development Corporation (EDC) to report to the Legislature on or before January 1, 2008, on the number of additional jobs created by the expansion of the TTA and the number of taxpayers, including subsidiaries, claiming tax incentives for doing business within the TTA.

<u>IMPLEMENTATION CONSIDERATIONS</u>

Under current law, DHCD reports to the Legislature on the effectiveness of the EZ program. For this report, the Franchise Tax Board (FTB) provides aggregate information on the amount of tax credits claimed in EZs to DHCD and the Legislature. This bill requires EDC to report to the Legislature the number of taxpayers that claim the tax incentives offered in the TTA. If EDC should request from FTB detailed tax information for specific taxpayers, FTB is restricted under the Revenue & Taxation Code from providing specific taxpayer information. Since DHCD is the agency responsible for administering the TTA program, the author may wish to replace the EDC reporting requirement with a provision similar to the current EZ reporting requirement language that requires DHCD to report to the Legislature on the effectiveness of the program.

However, implementing this bill would not significantly impact the department’s programs and operations.

LEGISLATIVE HISTORY

AB 1856 (Maze, 2003/2004) is identical to this bill. AB 1856 is currently in the Assembly Revenue & Taxation Committee.

AB 641 (Briggs, 2001/2002) was identical to this bill, except for the reference to DHCD. AB 641 failed to pass out of the first house by January 31 of the second year of the session.

AB 2090 (Reyes, 1999/2000) would have allowed expansion of a TTA by up to 15%, and would have added certain crop preparation services to the lines of businesses that may claim the tax incentives applicable in a TTA. AB 2090 failed to pass out of Assembly Appropriations.

OTHER STATES' INFORMATION

Currently, 29 other states have economic development areas that provide similar tax related incentives to those provided in California's economic development areas. The number of economic development areas varies from state to state. For example, California currently has 49 EDAs (that include EZs (39), MEA (2), LAMBRA (7), and TTA (1)), New York has 71, Florida 51, Illinois 93, and Michigan 33.

FISCAL IMPACT

This bill would not significantly impact the department's costs.

ECONOMIC IMPACT

The expansion of the geographic boundaries up to 15% would produce potential additional revenue losses to the extent the DHCD can ascertain whether a proposed expansion meets the requisite criteria. For this analysis, it is assumed a proportionate relationship exists between size of a TTA and amount of tax incentives allowed. A proportionate loss in revenue assumes the 15% expansion would occur over a five-year period at an expansion rate of 3% per year starting in 2006 (delay based on a strict approval/allocation process). This produces an insignificant revenue impact of under $150,000 annually for the following five years

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