

SUMMARY ANALYSIS OF AMENDED BILL

Franchise Tax Board

Author: Ridley-Thomas Analyst: Rachel Coco Bill Number: AB 990

Related Bills: See Prior Analysis Telephone: 845-4328 Amended Date: April 29, 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 amended September 9, 2003.

FURTHER AMENDMENTS NECESSARY.

DEPARTMENT POSITION CHANGED TO _____.

REMAINDER OF PREVIOUS ANALYSIS OF BILL AS AMENDED September 9, 2003, STILL APPLIES.

OTHER - See comments below.

SUMMARY

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

SUMMARY OF AMENDMENTS

The April 29, 2004, amendments designated a different agency to be responsible for submitting the tax expenditure report to the Legislature. DOF replaced the Legislative Analyst's Office as the agency that would be required to submit the report.

In addition, the April 29, 2004, amendments added legislative intent language that the tax expenditure report be considered during the budget process.

As a result of the amendments, the "This Bill" portion as discussed in the analysis of the bill as amended September 9, 2003, has been revised. In addition, the department has identified a technical and an implementation concern. The remaining implementation concern is also included below.

POSITION

Pending.

Board Position:

_____ S _____ NA _____ NP
_____ SA _____ O _____ NAR
_____ N _____ OUA X PENDING

Legislative Director

Brian Putler

Date

5/26/04

THIS BILL

This bill would require DOF to provide to the Legislature a report on tax expenditures, including those set forth in the Personal Income Tax Law (PITL), the Corporation Tax Law (CTL), and the Sales and Use Tax Law. The report is required to contain:

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

This bill would state the intent of the Legislature that the report be considered during the budget process to evaluate the relative priority of each tax expenditure as compared with all state expenditures.

This bill also would state the intent of the Legislature that criteria for the evaluation include the following:

- original intent of the tax expenditure,
- number of tax returns or taxpayers affected by the tax expenditure,
- distribution of each tax expenditure, where feasible, as follows:
 - for expenditures under the CTL, by size of the business or industry, by size of gross receipts, and by type of business or industry, and
 - for expenditures under the PITL, by income tax brackets,
- state and local revenue loss associated with each tax expenditure,
- conditions under which the tax expenditure should be viewed as a successful policy tool,
- potential policy alternatives for achieving the policy goals of the tax expenditures, and
- feasibility of repealing or continuing each tax expenditure.

This bill would require DOF to submit the tax expenditure report to the Legislature on or before January 10th of each year beginning January 10, 2004.

IMPLEMENTATION CONSIDERATIONS

It is unclear what is intended by the phrases “size of the business or industry” and “size of gross receipts.” Therefore, the department would need to make assumptions regarding the size of business and gross receipts, which may or may not reflect the author’s intent.

In order to implement this bill, the department would need to create a new report based on income tax brackets instead of AGI and using a fiscal year basis instead of a tax year basis. However, the report that would be required is similar in nature to various reports currently used internally and externally by FTB. Thus, implementation of this bill is expected to have a minor impact on the department.

TECHNICAL CONCERNS

This bill would require DOF to provide the first tax expenditure report on or before January 10, 2004. Since that date has past, the author may wish to amend the bill to reflect January 10, 2005.

LEGISLATIVE STAFF CONTACT

Rachel Coco
Franchise Tax Board
845-4328
rachel.coco@ftb.ca.gov

Brian Putler
Franchise Tax Board
845-6333
brian.putler@ftb.ca.gov