

SUMMARY ANALYSIS OF AMENDED BILL

Franchise Tax Board

Author: Escutia Analyst: Norm Catelli Bill Number: SB 1354

Related Bills: See Prior Analysis Telephone: 845-5117 Amended Date: 04/28/2004

Attorney: Patrick Kusiak Sponsor: _____

SUBJECT: Credit Carryovers/Aggregate Amount May Not Reduce "Net Tax" For The Taxable Year By More Than 50 Percent

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 INTRODUCED February 18, 2004, STILL APPLIES.

_____ OTHER - See comments below.

SUMMARY

This bill would limit certain credits to 50% of the tax.

SUMMARY OF AMENDMENTS

The April 13, 2004, amendments removed the Low Income Housing Credit from the credits that would be limited to 50% of the tax. The April 28, 2004, amendments extended the limitation by one tax year.

Except for the new "Effective/Operative Date," "This Bill," "Implementation," "Fiscal Impact," and "Economic Impact" discussions provided below, the department's analysis of the bill as introduced February 18, 2004, still applies. The Franchise Tax Board position remains "pending."

EFFECTIVE/OPERATIVE DATE

As a tax levy, this bill would become effective immediately upon enactment. The bill specifies that it would be operative for taxable years beginning on or after January 1, 2004, and before January 1, 2006.

Board Position:

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

Legislative Director

Date

Brian Putler

5/14/04

THIS BILL

This bill would limit application of all credits that have carryover provisions, except the Low Income Housing Credit, to 50% of "net tax" or "tax." This limitation would apply to both credits carried forward from prior years and credit amounts allowed during the 2004 and 2005 taxable years. The carryover period for any credit limited by this bill would be extended by one year. See Appendix I for a list of California tax credits.

IMPLEMENTATION CONSIDERATIONS

Implementing this bill would require changes to: 1) tax forms and instructions, 2) return processing, including manual verification of the credit computation, and 3) information systems (programming). For example, the changes proposed by this bill would require the addition of three lines to the individual income tax return, most likely forcing the return from a two-page return to a three-page return. Tax forms for business entities would increase by one page as well (currently these forms are four pages). To accommodate an increase in the size of returns, storage costs of income tax returns may increase for returns filed on paper. Also, additional instructions would be required in the tax booklets that would increase the size of the booklets for individuals and corporate taxpayers. In addition to forms issues, the department's computer systems would need to be reprogrammed. There would be increased public assistance required (phone calls and correspondence). All of these changes result in additional costs described below under "Fiscal Impact."

FISCAL IMPACT

Based on the implementation considerations noted above, department costs could range from \$500,000-\$700,000 in fiscal year 2004/05 and \$400,000-\$500,000 for fiscal year 2005/06. These costs include increased expenses for printing related to revising existing forms and instructions, return processing, storage of forms, programming changes to information systems, and manual verification of the accuracy of the credits allowed. As an implementation plan is further developed, department costs will be refined.

ECONOMIC IMPACT**Revenue Estimate**

Based on data and assumptions discussed below, this bill as amended would result in the following revenue effects.

Estimated Cash Flow Revenue Effects of SB 1354 04/28/2004 Enactment Assumed After June 30, 2004 [\$ In Millions]				
	2004-05	2005-06	2006-07	2007-08
PIT	\$62	\$19	-\$19	-\$12
Corp	\$358	\$272	-\$61	-\$27
Total	\$420	\$291	-\$80	-\$39

Estimates above assume the carryover period for any credit limited by operation of this bill is extended by only one additional year. The credit limitation would be effective with taxable years beginning on or after January 1, 2004, and before January 1, 2006, with enactment assumed after June 30, 2004.

Revenue Discussion

Revenue gains in the initial two years are the result of limiting the application of credits with carryover provisions (except the Low Income Housing Credit) pursuant to this bill compared to projected credits applied under current law. Beginning in the third fiscal year, losses reflect the larger amount of carryover credits available for application pursuant to this bill (including an extension of the carryover period by one year) compared to carryover credits expected to be applied under current law. These losses are the result of an increased application of credits in taxable years after the initial two years (the two years credits are limited).

For both the PIT and CTL estimates, computer models using sample data (2001 base) were used to simulate the bill's provisions. The models recalculate tax on a taxpayer-by-taxpayer basis.

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Appendix I**Refundable Credit**

Child and Dependent Care Expenses

Credits Without Carryover Provisions

Dependent Parent

Enterprise Zone Employee

Joint Custody Head of Household

Long-Term Care

Nonrefundable Renter's Credit

Other State Tax

Prison Inmate Labor

Senior Head of Household

Teacher Retention

Credits With Carryover Provisions (would be limited by SB 1354 unless noted with **)

Child Adoption

Community Development Financial

Institution Deposits

Disabled Access for Eligible Small Businesses

Donated Agricultural Products Transportation

Employer Child Care Contribution

Employer Child Care Program

Enhanced Oil Recovery Area

Enterprise Zone Hiring

Enterprise Zone Sales or Use Tax

Farmworker Housing – Construction

Farmworker Housing – Loan

Joint Strike Fighter – Wages

Joint Strike Fighter – Property Costs

Local Agency Military Base Recovery Area
HiringLocal Agency Military Base Recovery Area
Sales or Use Tax

Low-Income Housing**

Manufacturing Enhancement Area Hiring

Natural Heritage Preservation

Prior Year Alternative Minimum Tax

Research

Rice Straw

Solar Energy System

Targeted Tax Area Hiring

Targeted Tax Area Sales or Use Tax

Repealed Credits With Carryover Provisions (would be limited by SB 1354)

Agricultural Products

Commercial Solar Electric System

Commercial Solar Energy

Contribution of Computer Software

Employer Ridesharing – Large Employer

Employer Ridesharing – Small Employer

Employer Ridesharing – Transit

Energy Conservation

Los Angeles Revitalization Zone – Hiring

Los Angeles Revitalization Zone – Sale or

Use Tax

Low-Emission Vehicles

Manufacturers' Investment

Orphan Drug

Political Contributions

Recycling Equipment

Residential Rental & Farm Sales

Ridesharing

Salmon & Steelhead Trout Habitat Restoration

Solar Energy

Solar Pump

Technological Property Contribution

Water Conservation

Young Infant