

REVISED ANALYSIS

Franchise Tax Board

Author: Speier Analyst: Jeff Garnier Bill Number: SB 516
Related Bills: See Legislative History Telephone: 845-5322 Original Analysis Date 02/20/03
Attorney: Patrick Kusiak Sponsor: _____

SUBJECT: S Corporation Treatment Allowed only to Corporations with Less Than \$20 Million in Total Gross Receipts

- REVENUE ESTIMATE CHANGED.
 FURTHER CONCERNS IDENTIFIED.
 REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED/AMENDED
STILL APPLIES.
 OTHER - See comments below.

SUMMARY OF BILL

This bill would restrict S corporation status to corporations with less than \$20 million in total gross receipts.

SUMMARY OF REVISION

The revenue estimate contained in the prior analysis has been revised based on additional data. The revised revenue estimate is:

Tax Revenue Estimate:

Revenue Gain Assumed Enactment After June 30, 2003 (\$ Millions)			
Fiscal Year	2003-04	2004-05	2005-06
Revenue Gain	\$235	\$190	\$195

This bill does not consider the possible changes in employment, personal income, or gross state product that could result from this measure.

Board Position:

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Legislative Director
Brian Putler

Date
05/05/03

Revenue Discussion:

Revised estimates are based on recent information and a sample of 100 tax returns for mid-size C corporations. From this sample, information was extracted from Schedules M1 (reconciliation of income per books with income per return) and M2 (analysis of unappropriated retained earnings per books) to calculate the dividend payout rates. (The dividend payout rate is the percentage of dividends paid to shareholders compared to the corporation's net income.) A tabulation of these data indicated that the payout rate should be approximately 20% rather than our previous estimate of 63%. Substituting the 20% payout rate assumption for our previous estimate of 63%, reduces our previous estimate by \$550 million for 2003-04, \$465 million for 2004-05, and \$510 million for 2005-06.

LEGISLATIVE STAFF CONTACT

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