

SUMMARY ANALYSIS OF AMENDED BILL

Franchise Tax Board

Author: Ridley-Thomas Analyst: Gloria McConnell Bill Number: AB 1003

Related Bills: See Prior Analysis Telephone: 845-4336 Amended Date: May 15, 2003

Attorney: Patrick Kusiak Sponsor: _____

SUBJECT: Tax Exemption For Professional Athletic Team Located In Redevelopment Plan Area

- DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analyses of bill as introduced.
- 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 STILL APPLIES.
- OTHER - See comments below.

SUMMARY

Under this bill, the gross income of a professional athletic team that is formed in or relocated to a community redevelopment plan area in this state (redevelopment area) would not be subject to income tax.

SUMMARY OF AMENDMENT

These May 15, 2003, amendments would provide a 100% gross income exclusion instead of a 100% income tax credit for a professional athletic team that forms in or relocates from another state to a redevelopment area.

The May 6, 2003, amendments would have provided a 100% income tax credit to the professional athletic team instead of providing the professional athletic team with an exemption from the corporate franchise tax, as the bill was introduced.

EFFECTIVE/OPERATIVE DATE

As a tax levy, this bill would be effective immediately. The bill would apply to taxable years beginning on or after January 1, 2004.

Board Position:

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Legislative Director

Date

Brian Putler

05/20/03

POSITION

Pending.

ANALYSIS

THIS BILL

Under this bill, for taxable years beginning on or after January 1, 2004, gross income would not include income of a qualified professional athletic team.

“Qualified professional athletic team” would mean a professional athletic team, as defined under current law, that on or after January 1, 2004, satisfies each of the following four conditions:

1. The team is either a new franchise awarded or an existing franchise relocated from another state to a redevelopment area.
2. The team’s venue for home competitions is established in or relocated from another state to a redevelopment area.
3. The Community Redevelopment Agency responsible for the administration of the redevelopment area (CRA) has certified that the team’s home venue is located in a redevelopment area.
4. The team engages in public contests of baseball, basketball, football, or hockey.

“Qualified taxable year” means the taxable year of the team during which the team engaged in its first public contest for profit at its home venue and each of the four succeeding taxable years.

“Community redevelopment plan area in this state” is described under the Community Redevelopment Law.

If within 20 years from the date of the first public contest for profit, the team relocates its home venue to a location outside the redevelopment area, then, in the taxable year in which the team relocates, the income of every taxpayer that previously excluded any income shall be increased by the total amount of income excluded during the qualified taxable years.

The CRA would be required to promptly notify the Franchise Tax Board if the team relocates its home venue outside the redevelopment area.

IMPLEMENTATION CONSIDERATION

As the bill moves through the legislative process, staff will further discuss details as to the implementation plan for long-term tracking and retention of the tax records if needed for purposes of the recapture provision in this bill.

FISCAL IMPACT

Departmental Costs

As the implementation plan details are further discussed and developed, departmental costs will be identified, though expected to be minor.

ECONOMIC IMPACT

Revenue Estimate

The revenue impact of the bill would be determined by the number of teams that are newly formed in or relocated from another state to a community redevelopment plan area, and the amount of the team's gross income. Although the amendments of May 6, 2003, and May 15, 2003, change the method for providing the "tax exemption," the net effect is that the team would have no tax liability, and the revenue estimate from the previous analyses still applies. For convenience, that revenue estimate is restated below.

Although a specific estimate cannot be derived, potential revenue losses would be very significant over time, perhaps on the order of tens of millions of dollars over the five-year period that gross income could be excluded.

Revenue Discussion

Even though the bill as amended May 15, 2003, limits the professional athletic teams that would qualify for the gross income exclusion to baseball, basketball, football, or hockey, the remaining portion of the previous revenue discussion still applies and is restated below for convenience.

Currently, the NFL, NBA, NHL, and MLB consist of 121 teams, of which 15 are located within California. These large market teams, and an even greater number of small market teams (e.g., minor league baseball), potentially would qualify for the gross income exclusion under this bill. With league expansions, the number of teams will only increase in future years.

For professional athletic teams, revenue streams come from several sources: television and other broadcast rights, attendance, merchandising, stadium naming rights, etc. As professional athletics is big business, these revenue streams are very substantial, if not staggering, in amounts. Available information regarding past team moves suggests that huge sums of tax revenue would go potentially untaxed during the five-year period that gross income would be excludable under this bill.

ARGUMENTS/POLICY CONCERNS

This bill would allow a 100% tax exemption for a profit-making entity, which is unprecedented.

This bill does not contain a sunset date. Sunset dates generally are provided to allow periodic review of the tax matter by the Legislature.

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