Franchise Tax Board

SUMMARY ANALYSIS OF AMENDED BILL

Author:	Chan	Analyst:	Rachel Coco	Bill Number:	AB 1177
Related Bills:	See Prior Analysis	Telephone:	845-4328	Amended Date:	June 21, 2006
		Attorney:	Patrick Kusiak	Sponsor:	

SUBJECT: Tax Rates/Increase To 10% & 11%/Education Finance

____ DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended _____.

__X__ AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

____ AMENDMENTS DID NOT RESOLVE THE DEPARTMENTS CONCERNS stated in the previous analysis of bill as introduced/amended _____.

____ FURTHER AMENDMENTS NECESSARY.

____ DEPARTMENT POSITION CHANGED TO _____.

__X__ REMAINDER OF PREVIOUS ANALYSIS OF BILL AS AMENDED May 23, 2006, STILL APPLIES.

__X__ OTHER – See comments below.

SUMMARY

This bill would add two personal income tax (PIT) rates, 10% and 11%, and would make the alternative minimum tax (AMT) rate 8.5%. The additional revenue generated would be used to fund education.

SUMMARY OF AMENDMENTS

The June 21, 2006, amendments deleted the urgency clause, revised the operative date, and added repeal dates for the additional PIT rates and the increased AMT rate. The amendments also changed the manner in which the revenue will be appropriated to fund education. As a result of the amendments, the "Effective/Operative Date," "This Bill," and "Economic Impact" discussions provided in the analysis of the bill as amended May 23, 2006, have been revised. The remainder of the May 23, 2006, analysis still applies.

EFFECTIVE/OPERATIVE DATE

This bill would be effective January 1, 2007. The bill specifies that the bill will be operative for taxable years beginning on and after January 1, 2007.

Board Position:			Legislative Director	Date
_____ S	_____ NA	_____ NP		
_____ SA	_____ O	_____ NAR	Brian Putler	6/28/06
_____ N	_____ OUA	__X__ PENDING		

POSITION

Pending.

ANALYSIS

THIS BILL

The current top PIT rate is 9.3%. For taxable years beginning on or after January 1, 2007, this bill would establish a PIT rate of 10% for:

- Single filers (including married filing separate) whose taxable income is over $153,932 and equal to or less than $307,862,
- Joint filers whose taxable income is over $307,862 and equal to or less than $615,725, and
- Head of household filers whose taxable income is over $209,524 and equal to or less than $419,048.

This bill would establish a PIT rate of 11% for:

- Single filers (including married filing separate) whose taxable income is over $307,862,
- Joint filers whose taxable income is over $615,725, and
- Head of household filers whose taxable income is over $419,048.

This bill provides that the 10% and 11% brackets would be adjusted annually for inflation.

In addition, this bill would increase the AMT rate from 7% to 8.5% for taxable years beginning on and after January 1, 2007.

This bill specifies that the amount of tax imposed under the increased tax rates shall be reduced on a dollar-for-dollar basis by an amount equal to the tax imposed under Proposition 63. For example, a taxpayer whose taxable income is $1.5 million would be subject to a tax of $5,000 under Proposition 63, to be deposited into the MHS fund. Under this bill, the $5,000 of tax imposed under Proposition 63 would be subtracted from the amount of the taxpayer's total tax liability. Because the tax imposed under Proposition 63 is deposited into the MHS fund rather than the General Fund, the revenue increase from the 11% tax rate is less than if Proposition 63 had not been enacted.

This bill would appropriate the revenue generated as a result of the increased tax rates to fund education, as specified.

This bill states that the increased tax rates will be repealed as of January 1, 2013, unless a later enacted statute is enacted before January 1, 2009, to delete or extend that date.

ECONOMIC IMPACT

Revenue Estimate

This bill would result in the following revenue gains:

Estimated Revenue Impact of AB 1177 Taxable Years Beginning On Or After January 1, 2007 Assumed Enactment After June 30, 2006 ($ in Billions)			
Fiscal Year	2007-08	2008-09	2009-10
	+$3.6	+$2.7	+$2.8

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

Revenue Discussion

The above estimate was generated using the department's personal income tax model. The total revenue amount generated by the tax model was then reduced by the amount of tax imposed under Proposition 63 since the revenue generated from that tax is deposited into the MHS fund instead of the General Fund. It is estimated this bill would impact approximately 460,000 taxpayers. This estimate should be considered preliminary because an updated personal income tax model will be available within a few months.

LEGISLATIVE STAFF CONTACT

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