

ANALYSIS OF AMENDED BILL

Author: Yee Analyst: Deborah Barrett Bill Number: AB 1208
 Related Bills: See Legislative History Telephone: 845-4301 Amended Date: 04-14-2005
 Attorney: Patrick Kusiak Sponsor: _____

SUBJECT:

Additional Fee Paid At Vehicle Registration For Residents Of City And County Of San Francisco

SUMMARY

This bill would permit the board of supervisors of the City and County of San Francisco to impose a vehicle registration fee for the purpose of road maintenance and improvements within the county.

SUMMARY OF AMENDMENTS

The April 14, 2005, amendments added language to include the operation of the county's local streets and highways as an activity to be funded by the fee. This is the department's first analysis of this bill.

PURPOSE OF THE BILL

According to the author's staff, the purpose of this bill is to provide funding for critical infrastructure improvements in the City and County of San Francisco.

EFFECTIVE/OPERATIVE DATE

The bill would become effective on January 1, 2006, and operative for registrations or renewals occurring on or after the January 1 following the adoption of the local ordinance.

POSITION

Pending

ANALYSIS**FEDERAL/STATE LAW**

Existing state law imposes an annual registration fee on motor vehicles with additional charges assessed to support the California Highway Patrol, air quality programs in certain areas, and abandoned vehicle programs. Current law also allows the state to impose a Vehicle License Fee (VLF) on its residents for the privilege of operating a vehicle on public highways.

Board Position:

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Department Director

Date

Will Bush

6/16/05

Existing federal and state law allows individuals to reduce taxable income by the greater of a standard deduction amount or total itemized deductions, which consists of certain expenses, such as medical expenses, charitable contributions, interest, and state or local taxes paid. The VLF imposed by a state or local entity is considered a personal property tax that can be deductible for individuals as a personal property tax on the federal and California Schedule A for itemized deductions. For business entities, the VLF can be deducted as a business expense for vehicles used in the business and is deducted against business income.

THIS BILL

This bill would permit the Board of Supervisors of the City and County of San Francisco to pass an ordinance or resolution to impose a fee to be paid at the time of registration or renewal of registration of every vehicle registered to an address within the county, except for those vehicles expressly exempted from registration fees. The bill would require the Board of Supervisors to contract with the Department of Motor Vehicles (DMV) to administer the fee and to reimburse DMV for the costs of the initial setup and programming costs.

This bill would also require that the revenue generated by the fee imposed to be used to fund programs for the construction, improvement, operation, and maintenance of local streets and highways in San Francisco. The amount of the fee is to be determined by the Board of Supervisors.

IMPLEMENTATION CONSIDERATIONS

The department has identified the following implementation concerns. Department staff is available to work with the author's office to resolve these and other concerns that may be identified.

It is unclear how the fee will be calculated. The method of calculating the fee would determine whether the fee would be deductible on a county resident's federal and state income tax return. If the fee is based on the value of the vehicle, it could be deductible. If the fee is calculated as a flat fixed fee, the fee would not be deductible. Clarification is needed to avoid any confusion on the proper tax treatment of this fee.

LEGISLATIVE HISTORY

AB 574 (Yee, 2003/2004) contained almost identical language to this bill, permitting the Board of Supervisors to pass an ordinance to impose a fee. This bill was held in the Senate Appropriations Committee.

AB 1690 (Leno, 2003/2004) would have required FTB to administer and collect a local income tax approved by the voters. This bill also had provisions regarding public safety finance agencies and property taxes. AB 1690 was held in the Senate Appropriations Committee.

AB 1187 (Leno, 2003/2004) contained language to permit the City and County of San Francisco to impose, upon voter approval, a local vehicle license fee. AB 1187 was held in the Assembly Appropriations Committee.

AB 799 (Leno, 2005/2006) contains language to authorize the DMV to administer and collect a local vehicle license fee on the residents of San Francisco City and County. It provides for FTB to report the amount of revenue loss to the state attributable to the increased deductions claimed for payment of the fee by the residents.

FISCAL IMPACT

This bill would not significantly impact the department's programs or operations.

ECONOMIC IMPACT

The author's staff has indicated that the fee would be a flat, fixed fee, and the language would be amended to reflect this. If amended to reflect a flat, fixed fee, the fee would be non-deductible on income tax returns, and the bill would have no revenue impact.

If the fee was calculated based on the value of the vehicle, the fee could result in additional deductions on tax returns. If this were the case, revenue losses would result to the state. Revenue losses would be determined by (1) the amount of the fee, (2) the amount of fees deducted on tax returns, and (3) tax rates of individuals or corporations receiving a deduction benefit.

Since the method of calculating the fee has not been specified in the bill, a revenue estimate cannot be determined. For purposes of illustrating potential revenue effects of a deductible fee, applying the following data and assumptions derives an illustrative impact.

- An average fee of \$100 per vehicle;
- Roughly 491,000 vehicles registered in the City and County of San Francisco in 2006;
- Half of the owners of these vehicles are taxpayers and have a deduction benefit; and
- Applying an average tax rate of 6% would derive an annual revenue loss of \$1.5 million beginning in 2006 [$\$100 \times 491,000 \times 1/2 \times 6\% = \1.5 million].

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