Franchise Tax Board

REVISED ANALYSIS

Author:	Haynes	Analyst:	Jeff Garnier	Bill Number:	AB 1224
Related Bills:	See Prior Analysis	Telephone:	845-5322	Original Analysis Date:	February 22, 2005
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SUBJECT: California New Market Tax Credit

__X__ REVENUE ESTIMATE CHANGED.

_____ FURTHER CONCERNS IDENTIFIED.

__X__ REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED/AMENDED February 22, 2005, STILL APPLIES.

_____ OTHER – See comments below.

SUMMARY OF BILL

This bill would provide for a credit similar to the federal new market tax credit. The credit would be 5% of the qualified investment in a low or moderate income community development.

SUMMARY OF REVISION

THIS BILL section of the February 22, 2005, analysis states:

> This bill would allow a California NMTC of 5% each year for a seven-year period, totaling 35% of the adjusted purchase price of the investment in a qualified community development entity.

The bill does not apply the 5% credit each year over a seven-year period as stated in the prior analysis. The bill would permit a credit equal to 5% of the investment in only the first year.

A new revenue estimate, based on the bill providing for a single year 5% credit, is being provided below.

The remainder of the analysis of the bill, as introduced on February 22, 2005, still applies.

POSITION

Pending.

Board Position:			Legislative Director	Date
____ S	____ NA	____ NP		
____ SA	____ O	____ NAR	Brian Putler	1/26/05
____ N	____ OUA	__X__ PENDING		

Revenue Estimate

The revenue estimate as incorrectly reported in the prior analysis is:

Estimated Revenue Impact of AB 1224 Enacted After June 30, 2006 ($ Millions)					
	2006-07	2007-08	2008-09	2009-10	2010-11
New Markets Tax Credit	-$4	-$25	-$65	-$100	-$115

The revised revenue estimate reflecting the credit only being allowed in the first year is:

Estimated Revenue Impact of AB 1224 Effective Immediately, Operative On Or After January 1, 2006 Enacted After June 30, 2006 ($ Millions)					
	2006-07	**2007-08**	**2008-09**	**2009-10**	**2010-11**
New Markets Tax Credit	**-$1**	**-$9**	**-$23**	**-$31**	**-$30**

Revenue Discussion

Estimates for AB 1224 are different because they are based on actual awards data from the 2005 CDFI Fund and are based on an effective date beginning on or after January 1, 2006.

The revenue impact of this provision of the bill would be determined by amounts of: (1) federal allocations under the New Market Tax Credit (NMTC) Program, (2) qualified equity investments, and (3) the amount of tax credits that can be applied to reduce tax liabilities.

In 2002, 66 Community Development Entities (CDE) were selected to receive allocations totaling $2.5 billion through the federal NMTC Program. Twenty of the 66 CDEs allocated $340 million to California service areas. California allocations are 14% ($340 million divided by $2.5 billion) of total allocations.

In 2004, the Community Development Financial Institutions (CDFI) Fund announced 201 CDEs had been selected to receive allocations totaling $14.5 billion through the federal NMTC Program. Of these 201 CDEs, 12 were California-based. These 12 received allocations totaling $1.1 billion, or 8% of the total for the U.S. In 2005, the CDE allocations totaled $9.1 billion for 155 allocatees. Of these, California numbered 14 allocatees with $760 million, or 8% of the total U.S. Based on past allocations, it is assumed that California-based CDEs will receive future annual allocations averaging 10% of total federal allocations.

Qualified equity investment estimates were based on actual allocations and original Congressional allocations. Over twelve years (2006-2019), it is estimated that applied equity investment credits would total approximately $195 million. This estimate assumes that qualified CDEs market their allocations within a period of five years. It is assumed that 60% of the qualified equity investments will be allocated to the first two years (33% and 27% per year, respectively.) Thus, for example, the amount of qualified investment from 2005 allocations that will be creditable in 2006 is $144 million ($431 million 2005 allocation x 33%= $144 million). The credit rate on these investments is 5 percent. It is assumed that 75% of the credits get applied. Thus, the credit claimed in tax year 2005 equals $5 million ($144 million x 5% x .75.) Tax year calculations were converted to fiscal years.

This bill contains the provision that the Franchise Tax Board shall recapture excess credit. It is expected that any excess credit would be minimal, less than 1%. If the recaptured amounts equaled 1%, the revenue to the state would range from $10,000 in the first year, to $300,000 in the fifth year.

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