Franchise Tax Board

SUMMARY ANALYSIS OF AMENDED BILL

Author: Dymally
Analyst: Nicole Kwon
Bill Number: AB 1361

Related Bills: See Prior Analysis
Telephone: 845-7800
Amended Date: June 15, 2005

Attorney: Patrick Kusiak
Sponsor: ____________

SUBJECT: Enterprise Zones/Designation Period For Specified Enterprise Zones May Total 25 Years

_____ 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 April 5, 2005, STILL APPLIES.

OTHER – See comments below.

SUMMARY

This bill would allow enterprise zones (EZ) designated prior to 1990 to have a 25-year designation period.

SUMMARY OF AMENDMENTS

The June 15, 2005, amendments revised the previous version of the bill by allowing all EZs that were designated prior to 1990, rather than just EZs in the Central City, Mid-Alameda, Eastside, Harbor, and Northeast Valley located in the County of Los Angeles, to have a 25-year EZ designation period. As a result, a revised revenue estimate is included below. The remainder of the department's analysis of the bill as amended April 5, 2005, still applies.

POSITION

Pending.

Board Position:			Legislative Director	Date
_____ S	_____ NA	_____ NP		
_____ SA	_____ O	_____ NAR	Brian Putler	6/24/05
_____ N	_____ OUA	__X__ PENDING		

ECONOMIC IMPACT

Revenue Estimate

Based on data and assumptions discussed below, the personal income tax and corporation tax revenue loss from this bill would be as follows:

Estimated Revenue Impact of AB 1361 Amended June 15, 2005 Effective On Or After January 1, 2005 With Enactment Assumed After June 30, 2005 ($ Millions)			
2006-07	2007-08	2008-09	2009-10
No impact	-$55	-$75	-$100

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

Revenue Discussion

Revenue losses for EZs under the personal income and the corporation tax laws would largely depend on the amount of qualifying property purchased subject to the sales tax, the amount of wages paid to qualifying employees, and the apportioned state tax liabilities of businesses claiming these tax benefits.

This bill would impact 19 existing EZs that have already been extended from the initial 15 year period by five years. Based on most recent data, EZs generate an average impact of $6 million annually. Studies show that all available credit carryovers are exhausted within three years following expiration. As such, the revenue impact from the continuation of these EZs is offset by carryover credits unaffected by proposed law. Historical usage patterns of 30% (or $2 million), 20% (or $1 million) and 10% (or $0.5 million) were applied for the three years following EZ expiration.

The above table reflects the adjusted (net) impact from the proposed extension of all 19 EZs impacted by this bill. Values were rounded to the nearest $5 million. The extension of EZ designations has a revenue lag resulting from credits already earned but yet to be applied against future tax liabilities. As such, no revenue impact is assigned to the 2006-07 fiscal years since taxpayers are unlikely to accelerate estimated tax payments when credit carryovers still remain.

For 2007-08, the net cost of continuing the 13 EZs set to expire in 2006 would be $55 million. This amount is the difference between $78 million ($6 million x 13 EZs) less the associated credit carryover of $23 million ($78 million x 30%) assumed under current law. In 2008-09, six more EZs are set to expire. Thus, revenue losses would continue to increase.

LEGISLATIVE STAFF CONTACT

Nicole Kwon
Franchise Tax Board
(916) 845-7800
haeyoung.kwon@ftb.ca.gov

Brian Putler
Franchise Tax Board
(916) 845-6333
brian.putler@ftb.ca.gov