

SUMMARY ANALYSIS OF AMENDED BILL

Author: Klehs Analyst: Rachel Coco Bill Number: AB 1631
 Related Bills: See Prior Analysis Telephone: 845-4328 Amended Date: May 12, 2005
 Attorney: Patrick Kusiak Sponsor: _____

SUBJECT: Underpayment of Estimated Tax Penalty Relief

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

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 _____.

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

OTHER – See comments below.

SUMMARY

This bill would provide an exception to the estimated tax underpayment penalty.

SUMMARY OF AMENDMENTS

The May 12, 2005, amendments would add a general exception to the estimated tax underpayment penalty. The amendments would also repeal several obsolete provisions of law. As a result of the amendments, the “This Bill” and “Economic Impact” discussions as provided in the analysis of the bill as introduced February 22, 2005, have been revised. The remainder of the analysis still applies.

POSITION

Support.

On December 1, 2004, the Franchise Tax Board voted 2-0 to sponsor SB 14, which contains the same provisions as this bill.

Board Position:	Department Director	Date
<input checked="" type="checkbox"/> S		
_____ NA		
_____ SA	Brian Putler	5/24/05
_____ N		
_____ OUA		
_____ NP		
_____ NAR		
_____ PENDING		

THIS BILL

This bill would provide an exception to the estimated tax underpayment penalty that results when a law change retroactively increases the amount of a taxpayer's estimated tax payment obligation. This exception would apply to penalties imposed on and after January 1, 2005. Since the bill specifies that the exception would apply to law changes chaptered during the taxable year of the underpayment, it would not apply to federal law changes that may create an underpayment of state tax because federal law is enacted without being chaptered.

This bill would provide a specific exception to the estimated tax underpayment penalty for individuals who underpaid their estimated taxes during the 2004 taxable year due to the suspension of the Teacher Retention Credit.

This bill also would repeal several obsolete provisions containing specific exceptions to the estimated tax underpayment penalty for taxable years prior to 2003.

ECONOMIC IMPACT

The department estimates revenue losses from this bill to be insignificant, if any. In addition, a permanent exception would apply to any future change in state law that is intended to increase revenue in the year of enactment and could eliminate the incentive to increase estimated tax payments for the current taxable year. As a result, there may be a delay in the receipt of revenue from the new law; instead of immediate acceleration due to changes in withholding, revenue would be realized at the next return filing date. If there were a need to accelerate revenue in the taxable year of a future law change, language could be added to expressly prohibit application of the penalty exception for that law change.

LEGISLATIVE STAFF CONTACT

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