

SUMMARY ANALYSIS OF AMENDED BILL

Author: Nava/Bass Analyst: Nicole Kwon Bill Number: AB 164
 Related Bills: See Prior Analysis Telephone: 845-7800 Amended Date: August 17, 2005
 Attorney: Patrick Kusiak Sponsor: _____

SUBJECT: Disaster Loss Deduction/Excess Loss Carryover/Shasta County Wildfires/Kern, Los Angeles, Orange, Riverside, San Bernardino, San Diego, Santa Barbara & Ventura County Severe Rainstorms, Related Flooding, Slides & Other Events

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 Support.

REMAINDER OF PREVIOUS ANALYSIS OF BILL AS AMENDED June 15, 2005, STILL APPLIES.

OTHER – See comments below.

SUMMARY

This bill would allow taxpayers special tax treatment, called disaster loss treatment, for losses sustained as a result of the severe rainstorms and related events that occurred in Kern, Los Angeles, Orange, Riverside, San Bernardino, San Diego, Santa Barbara, and Ventura Counties.

SUMMARY OF AMENDMENTS

According to the author’s office, the August 17, 2005, amendments extended the disaster period for losses sustained as a result of the severe rainstorms and related events that occurred in Laguna Beach in Orange County by adding June 2005 to the provisions. The amendments also added co-authors and double-jointing language in the event that proposed changes to the disaster loss treatment provisions contained in AB 18 (La Malfa) and SB 457 (Kehoe) are enacted before this bill is enacted.

As a result of the amendments, a revised revenue estimate is included below. The remainder of the department’s analysis of the bill as amended June 15, 2005, still applies.

Board Position:	Legislative Director	Date
<input checked="" type="checkbox"/> S	Brian Putler	08/31/05
_____ NA		
_____ SA		
_____ N		
_____ NP		
_____ O		
_____ OUA		
_____ NAR		
_____ PENDING		

POSITION

Support.

On March 29, 2005, the Franchise Tax Board voted 2-0, with the representative from the Department of Finance abstaining, to support this bill as amended March 8, 2005.

ECONOMIC IMPACT

Revenue Estimate

For the Southern California storms that took place during December 2004 through March 2005, revenue losses were estimated to be approximately \$372,000. The amendment adding the month of June 2005, which would include the landslide that occurred in Laguna Beach to the provisions of this bill, would increase total revenue losses by \$360,000 for a total of \$732,000. The loss of \$732,000 could be carried back to the prior tax year already filed or allowed in future years. If total losses are utilized over a three-year period, the total revenue loss from this bill is as follows:

Estimated Revenue Impact of AB 164		
Assumed Immediate Enactment Date		
Fiscal Year Impact		
2005-06	2006-07	2007-08
b/	c/	b/

b/ Loss of less than \$250,000

c/ Loss of less than \$500,000

Revenue Discussion

Addition of Laguna Beach:

The revenue impact of this bill is dependent on the value of losses sustained by Laguna Beach residents as a result of the landslide that occurred in June 2005. The casualty loss calculation begins at the federal level and is then forwarded to the California tax return after considering the following factors:

1. The smaller of the decrease in FMV (fair market value) or the adjusted basis of the property,
2. The amount of insurance reimbursement,
3. \$100 per incident, and
4. 10% adjusted gross income (AGI) limitation.

According to officials at the City of Laguna Beach, 11 homes were destroyed, four homes were damaged, and six homes have been prohibited from being occupied.

Using estimated basis values for these homes, 100% for those destroyed and 50% for those damaged and prohibited from being occupied, total losses are estimated to approximate \$9.7 million. California insurance companies generally do not cover property losses caused by landslides. A small adjustment of \$200,000 from the total losses of \$9.7 million is needed to account for \$100 per incident adjustment and 10% AGI limitation.

The impact of the amendment to include Laguna Beach would be determined by disaster losses reported as a deduction in future years. Losses of \$9.5 million (total loss of \$9.7 million - \$200,000) may be used in the year prior to the disaster, the year of the disaster, or carried forward to future years. It is estimated that 33% will be used during the year of the disaster and 5% will never be utilized. The other 62%, \$6 million (\$9.5 million x 62% = \$6 million), will be carried forward and allowed for use in future years. Assuming an average marginal tax rate of 6%, this bill's revenue loss approximates \$360,000 (\$6 million x 6% = \$360,000) over fiscal years 2005/2006, 2006/2007, and 2007/2008.

LEGISLATIVE STAFF CONTACT

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