Franchise Tax Board

SUMMARY ANALYSIS OF AMENDED BILL

Author:	Berg	Analyst:	Nicole Kwon	Bill Number:	AB 1798
Related Bills:	See Prior Analysis	Telephone:	845-7800	Amended Date:	February 14, 2006
		Attorney:	Patrick Kusiak	Sponsor:	

SUBJECT: Disaster Loss Deduction/Excess Loss Carryover/Specified Counties/December 2005 & January 2006 Rainstorms, Related Flooding & Slides & Any Other Related Casualties

____ 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 INTRODUCED January 9, 2006 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 the specified counties.

This analysis will not address the bill's changes to the Property Tax Law as they do not impact the department or state income tax revenue.

SUMMARY OF AMENDMENTS

The February 14, 2006, amendments resolved the argument/policy concern identified in the department's analysis of the bill as introduced January 9, 2006, by adding Alameda, Alpine, Amador, Butte, Colusa, Contra Costa, El Dorado, Fresno, Kings, Lassen, Marin, Nevada, Placer, Plumas, Sacramento, San Joaquin, San Luis Obispo, San Mateo, Santa Cruz, Shasta, Sierra, Siskiyou, Solano, Sutter, Tulare, Yolo, and Yuba as counties eligible to receive disaster loss treatment as a result of the severe rainstorms and related events. A revised revenue estimate is

Board Position:			Legislative Director	Date
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included below. The remainder of the department's analysis of the bill as introduced January 9, 2006, still applies.

POSITION

Pending.

ECONOMIC IMPACT

Tax Revenue Estimate

Based on data and assumptions discussed below, this provision would result in the following revenue losses.

Estimated Revenue Impact of AB 1798 Effective for Tax Years BOA 1/1/2005 Assumed Immediate Enactment Date		
	(Millions)	
2006/07	2007/08	2008/09
-$.7	-$1.2	-$.8

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

Revenue Discussion

The revenue impact of this bill is dependent on the dollar value of real and personal property losses. The loss for tax purposes is calculated as the lesser of the reduction in fair market value (FMV) or the adjusted basis. This value is reduced by insurance reimbursements, $100 per incident, and 10% of adjusted gross income (AGI).

According to the Federal Emergency Management Agency (FEMA), private, public, and commercial damages are estimated to exceed $500 million statewide. This estimate assumes that total losses equal $550 million and that real and personal property damages account for 70% or $385 million ($550 million x 70%).

It is estimated that 10% ($39 million) of losses are uninsured and 90% ($346 million) are insured. Because some insurance policies cover a fixed amount of damages rather than the fair market value, it is estimated that only 70% of damages would be reimbursed by an insurance policy. These adjustments result in combined uninsured real and personal property losses of $143 million [$39 million + ($346 million x 30%)]. These uninsured losses are further reduced by $4 million to account for basis and AGI limitations, resulting in $139 million in possible deductions.

It is estimated that 50%, or $70 million in deductions, will be used during the year of the disaster and 5% ($7 million) will never be reported and therefore will not impact this bill. Assuming an average marginal tax rate of 6% on the remaining $62 million ($139 million - $70 million - $7 million), this bill's revenue loss approximates $3.7 million ($62 million x 6%). If total losses are utilized over a five-year period, the revenue impact for fiscal year 2006/2007 would be $0.7 million.

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