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:	June 12, 2006
		Attorney:	Patrick Kusiak	Sponsor:	

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

_____ 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 ____________________.

__X__ REMAINDER OF PREVIOUS ANALYSIS OF BILL AS AMENDED April 20, 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 June 12, 2006, amendments revised the specified disaster period for losses sustained as a result of the severe rainstorms and related events that occurred in Del Norte, Humboldt, Lake, Mendocino, Napa, Sonoma, and Trinity counties from December 17, 2005, to December 2005, and from January 3, 2006, to January 2006. The amendments also resolved the Implementation Consideration identified in the department's previous analysis of the bill by adding double-jointing language in the event that proposed changes to the disaster loss treatment provisions contained in AB 2735 (Nava) are enacted before this bill is enacted.

Board Position:			Legislative Director	Date
_____ S	_____ NA	_____ NP		
_____ SA	_____ O	_____ NAR	Brian Putler	6/15/06
_____ N	_____ OUA	__X__ PENDING		

According to county officials affected by the Northern California storms, extending the specified disaster period is not anticipated to have any additional material effect on private personal property losses. Based on this information, the previous revenue estimate still applies and is included below for convenience. The remainder of the department's analysis of the bill as amended April 20, 2006, still applies.

POSITION

Pending.

ECONOMIC IMPACT

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 ($ in Millions)		
2006/07	2007/08	2008/09
Minor loss	-$0.6	Minor loss

Minor loss = Less than $500,000

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

Tax 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 $250 million for the specified counties in this bill and that real and personal property damages account for 70%, or $175 million.

It is estimated that 10%, or $18 million, of losses are uninsured and 90%, or $157 million, are insured. Because some insurance policies cover a fixed amount of damages rather than the FMV, 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 $65 million

[$18 million + ($157 million x 30%)]. These uninsured losses are reduced by $2 million to account for basis and AGI limitations, resulting in $63 million in possible deductions.

It is estimated that 50%, or $31 million in deductions, will be used during the year of the disaster and 5%, or $3 million in deductions, will never be reported and therefore will not impact this bill. Assuming an average marginal tax rate of 6% on the remaining $29 million ($63 million - $31million - $3million), this bill's revenue loss approximates $1.7 million ($29 million x 6%). If total losses were utilized over a five-year period, the revenue impact for fiscal year 2006/2007 would be $0.3 million.

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