

ANALYSIS OF AMENDED BILL

Author: Assembly Budget Committee Analyst: Rachel Coco Bill Number: AB 1809

Related Bills: See Legislative History Telephone: 845-4328 Amended Date: June 27, 2006

Attorney: Patrick Kusiak Sponsor: _____

SUBJECT:	Teacher's Retention Tax Credit Suspension
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SUMMARY

This bill would, among other things, suspend the Teacher's Retention Tax Credit.

SUMMARY OF AMENDMENTS

The June 27, 2006, amendments removed intent language and added provisions relating to the implementation of the state's budget.

This is the department's first analysis of this bill. This analysis will only include a discussion of the provisions impacting the department.

PURPOSE OF THE BILL

The purpose of the bill is to enact statutory changes relating to the Budget Act of 2006.

EFFECTIVE/OPERATIVE DATE

As an urgency statute, this bill would be effective and operative upon enactment.

POSITION

Pending.

ANALYSIS

FEDERAL/STATE LAW

Existing federal and state laws provide various tax credits designed to provide tax relief for taxpayers that incur certain expenses (e.g., child adoption) or to influence behavior, including business practices and decisions (e.g., research credits or economic development area hiring credits). These credits generally are designed to provide incentives for taxpayers to perform various actions or activities that they might not otherwise undertake.

Board Position: ____ S ____ NA ____ NP ____ SA ____ O ____ NAR ____ N ____ OUA ____ X PENDING	Department Director Date Selvi Stanislaus 8/9/06
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Current state law allows a tax credit for credentialed teachers based upon the taxpayer's years of service as a credentialed teacher. The credit amount varies as follows:

<u>Years of Service</u>	<u>Credit</u>
At least 4 but less than 6 years	\$250
At least 6 but less than 11 years	\$500
At least 11 but less than 20 years	\$1,000
20 or more years	\$1,500

The credit cannot exceed 50% of the amount of tax that would be imposed on a teacher's salary, excluding pensions or other deferred compensation, after application of the standard deduction or itemized deductions.

The Teacher Retention Tax Credit was enacted in 2000 and first operative for the 2000 taxable year. It was subsequently suspended for the 2002, 2004, and 2005, taxable years.

THIS BILL

This bill would suspend the Teacher Retention Tax Credit for the 2006 taxable year. Because there are no carryover provisions for this credit, including the period that the credit was previously suspended, the suspended credit amounts as proposed by this provision would not be available to reduce tax for any other taxable year.

IMPLEMENTATION CONSIDERATIONS

Implementing this bill would require some changes to existing tax forms and instructions and information systems, which could be accomplished during the normal annual update.

LEGISLATIVE HISTORY

SB 1100 (Senate Budget Committee, Stats. 2004, Ch. 226), among other things, suspended the Teacher Retention Tax Credit for taxable years 2004 and 2005.

AB 2065 (Oropeza, Stats. 2002, Ch. 488) suspended the Teacher Retention Credit for the 2002 taxable year.

AB 2879 (Jackson, Stats. 2000, Ch. 75) enacted the Teacher Retention Credit.

OTHER STATES' INFORMATION

Illinois, Massachusetts, Michigan, Minnesota, and New York laws do not provide a credit comparable to the Teacher Retention Credit. The laws of these states were reviewed because their tax laws are similar to California's income tax laws.

FISCAL IMPACT

This bill would not significantly impact the department's costs.

ECONOMIC IMPACT

This bill would result in the following revenue gains:

AB 1809 Revenue Estimate Suspension of the Teacher Retention Tax Credit For 2006 Tax Year (\$ in Millions)			
Fiscal Years	2005-06	2006-07	2007-08
Teacher's Retention Tax Credit Suspension	No Change	\$165	No Impact

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

The Teacher's Retention Tax Credit is currently suspended for taxable years 2004 and 2005. Credit usage in 2003, the last full year that the credit was allowed, totaled approximately \$155 million. The number of credentialed teachers has increased approximately 2.5% annually. This growth rate was applied to the 2003 actual amounts for an estimated revenue savings of \$165 million in 2006 [$\$155M$ (03 actuals) \times 7.5% (three year growth rate)].

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