

Franchise Tax Board

ANALYSIS OF ORIGINAL BILL

Author: J. Horton Analyst: Kristina E. North Bill Number: AB 180

Related Bills: See Legislative History Telephone: 845-6978 Introduced Date: January 24, 2005

Attorney: Patrick Kusiak Sponsor:

SUBJECT: Limited Liability Partnerships/Engineers & Land Surveyors

SUMMARY

This bill would allow engineers and land surveyors to do business in the form of a limited liability partnership (LLP).

This bill also would make corresponding changes to the Business and Professions Code. These changes would not impact the department and are not discussed in this analysis.

PURPOSE OF THE BILL

According to the author's office, the purpose of this bill is to expand the type of professional businesses that may operate as an LLP so these businesses can be organized to limit liability for claims arising out of the practice of engineering or land surveying.

EFFECTIVE/OPERATIVE DATE

This bill would be effective January 1, 2006.

POSITION

Pending.

ANALYSIS

STATE LAW

Under the Corporations Code, current law defines a "foreign LLP" as a partnership, other than a limited partnership, formed and governed by the laws of another jurisdiction. It must also be licensed in California to engage in the practice of architecture, public accountancy, or law.

Under the Corporations Code, current law defines a "registered LLP" as a partnership, other than a limited partnership, registered with the Secretary of State and governed by the laws of California.

Foreign and registered LLPs, including each partner within the entity, must be licensed or authorized to provide professional LLP services.

Table with Board Position (S, SA, N, NA, O, OUA, NP, NAR, PENDING) and Department Director (Gerald H. Goldberg) and Date (3/1/05).

The Corporations Code defines “professional LLP services” as the practice of architecture, the practice of public accountancy, or the practice of law.

Under the Revenue and Taxation Code, every registered LLP organized, registered, or doing business in this state is subject to an annual tax of \$800. In addition, a certificate of dissolution, withdrawal, or cancellation may not be filed unless the LLP obtains a tax clearance from the FTB.

THIS BILL

This bill would expand the definitions of “foreign LLP” and “registered LLP” to include an LLP licensed in California to engage in the “practice of engineering” and “the practice of land surveying.”

IMPLEMENTATION CONSIDERATIONS

Implementing this bill would not significantly impact the department’s programs and operations.

LEGISLATIVE HISTORY

AB 1265 (2003/2004, Horton) would have allowed engineers and land surveyors to do business in the form of a limited liability partnership (LLP). This bill failed passage from Senate Judiciary Committee.

OTHER STATES’ INFORMATION

The states surveyed include *Florida, Illinois, Massachusetts, Michigan, Minnesota, and New York*. These states were selected due to their similarities to California’s economy, business entity types, and tax laws.

Florida allows geologists and land surveyors to organize as an LLP.

Illinois allows engineers to organize as an LLP.

Massachusetts allows persons engaged in the practice of engineering or land surveying to organize as an LLP.

It is unclear whether *Michigan* allows firms engaged in the practice of architecture, professional engineering, or professional surveying to organize as an LLP.

Minnesota allows persons engaged in work of an architectural or engineering character, in land surveying to organize as an LLP.

New York allows engineers and land surveyors to organize as an LLP.

FISCAL IMPACT

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

ECONOMIC IMPACT

Revenue Estimate

Estimated Revenue Impact Effective January 1, 2006 (In millions)		
2005/2006	2006/2007	2007/2008
Less than \$150,000 gain	Less than \$500,000 gain	Less than \$500,000 gain

Revenue Discussion

This bill could produce a minor revenue gain of less than \$500,000 annually. Professional engineers and land surveyors may currently do business as sole proprietors, general partnerships, firms, or corporations. It is assumed that those entities selecting LLP status under this bill would be general partnerships, which currently do not pay the \$800 annual tax. Almost 400 professional engineering and land surveying partnerships existed for tax year 2001. If all of them converted to LLPs and paid the annual tax of \$800, an annual revenue gain of almost \$320,000 could be realized ($400 \times \$800 = \$320,000$).

LEGISLATIVE STAFF CONTACT

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