

SUMMARY ANALYSIS OF AMENDED BILL

Author: La Malfa Analyst: Nicole Kwon Bill Number: AB 18
 Related Bills: See Prior Analysis Telephone: 845-7800 Amended Date: August 15, 2005
 Attorney: Patrick Kusiak Sponsor: _____

SUBJECT: Disaster Loss Deduction/Excess Loss Carryover/Shasta County Wildfires

- 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 _____.
- REMAINDER OF PREVIOUS ANALYSIS OF BILL AS AMENDED Feb. 23, and March 3, 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 Shasta County wildfires.

SUMMARY OF AMENDMENTS

The August 15, 2005, amendments added double-jointing language in the event that proposed changes to the disaster loss treatment provisions contained in AB 164 (Nava/Bass) and SB 457 (Kehoe) are enacted before this bill is enacted.

The revenue estimate from the department’s prior analysis is included below for convenience. The remainder of the department’s analysis of the bill as amended February 23 and March 3, 2005, still applies.

Board Position:	Legislative Director	Date
<input checked="" type="checkbox"/> S	Brian Putler	08/29/05
<input type="checkbox"/> NA		
<input type="checkbox"/> SA		
<input type="checkbox"/> N		
<input type="checkbox"/> NP		
<input type="checkbox"/> O		
<input type="checkbox"/> NAR		
<input type="checkbox"/> OUA		
<input type="checkbox"/> 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 3, 2005.

ECONOMIC IMPACT

Revenue Estimate

Estimated Revenue Impact		
AB 18 – 2004 Shasta County Wildfires		
Fiscal Year Impact		
2005-06	2006-07	2007-08
Insignificant	Insignificant	Insignificant

Insignificant = Loss of less than \$150,000

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

Revenue Discussion

Total property damages attributable to the 2004 Shasta Fires are estimated at \$10.5 million. Ninety-nine percent is attributable to residential property losses, resulting in approximately \$10.4 million in losses for personal income tax (PIT) taxpayers.

Of the \$10.4 million in total PIT losses, it is estimated that basis limitations will reduce those losses for tax purposes by 3% to \$10.1 million ($\$10.4 \text{ million} \times 97\% = \10.1 million).

It is estimated that 90% of residential losses are insured. Therefore, uninsured losses are \$1.01 million ($\$10.1 \text{ million} \times 10\% = \1.01 million). Qualifying losses must further be reduced to reflect adjusted gross income limitations. Assuming a 3% reduction to reflect this limitation reduces the applicable losses to \$980,000 ($\$1.01 \text{ million} \times 97\% = \$980,000$).

Total losses of \$980,000 may be used in the year prior to the disaster, the year of the disaster, or the future year as a carryforward. It is estimated that 30% will be used during the year of the disaster and 5% will never be utilized. The other 65%, \$637,000 ($\$980,000 \times 65\%$), will be carried forward and allowed for use in future years. Assuming an average marginal tax rate of 6%, this proposal's revenue loss of approximately \$38,000 is deemed insignificant ($\$637,000 \times 6\% = \$38,000$).

LEGISLATIVE STAFF CONTACT

Nicole Kwon
Franchise Tax Board
(916) 845-7800
haeyoung.kwon@ftb.ca.gov

Brian Putler
Franchise Tax Board
(916) 845-6333
brian.putler@ftb.ca.gov