

ANALYSIS OF ORIGINAL BILL

Franchise Tax Board

Author: Liu Analyst: Deborah Barrett Bill Number: AB 2098
Related Bills: See Legislative History Telephone: 845-4301 Introduced Date: February 17, 2006
Attorney: Patrick Kusiak Sponsor: _____

SUBJECT: State Government Electronic Payment System

SUMMARY

This bill would require the Department of Technology Services to design and implement a statewide electronic payment system that would allow all state agencies to receive and make payments through electronic funds transfers, credit cards, debit cards, and automated clearinghouse debits and credits.

PURPOSE OF THE BILL

According to the author's staff, the purpose of this bill is to develop an efficient electronic payment system to enable Californians to utilize the most advantageous payment option when paying for state services or obligations.

EFFECTIVE/OPERATIVE DATE

The effective and operative date of this bill would be January 1, 2007.

POSITION

Pending.

ANALYSIS

FEDERAL/STATE LAW

Under current federal law, the Treasury is authorized to accept credit card payments for federal taxes. The IRS is prohibited from paying a fee or other consideration to credit card companies for processing these payments. In order to provide taxpayers the option of paying taxes by credit card, the IRS has entered into non-monetary contracts and agreements with credit card service providers. The service providers act in the capacity of merchants and are intermediaries in credit card transaction processing. The service providers validate credit card numbers and expiration dates, obtain authorization from the credit card issuers, issue confirmation numbers to the taxpayer at the end of the transaction, charge the taxpayer a convenience fee, and forward tax payments to the IRS for posting to taxpayer accounts. The convenience fee charged by service providers varies per provider and usually ranges between 1-3% of the payment amount. The IRS does not receive or charge any fees for payments.

Board Position:

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Department Director

Date

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Current state law requires all state agencies to accept credit cards or other payment devices as a method of payment, unless granted a specific exemption by the Director of the Department of General Services (DGS). Exemptions are granted when state agencies can demonstrate that this requirement would result in unfunded costs to the agency, result in a shortfall of revenue to the state, or would not be cost effective to implement.

The Franchise Tax Board (FTB) accepts credit card payments under the same procedures as the IRS. Through the Department of General Services, FTB has a master service agreement in place with a service provider to handle the payment transaction in the same manner as the IRS. The department does not charge a fee to the taxpayer. Instead, the service provider charges the taxpayer the fee. The convenience fee is currently set by contract at 2.5% of the payment. Taxpayers are informed of the convenience fee amount before the payment is authorized.

Under current state law, taxpayers can also make electronic fund transfer payments for their state taxes. The Web Pay program will allow a taxpayer to pay the current amount owed or schedule future payments, such as estimated tax payments, for up to one year in advance. The taxpayer informs the department of the amount to be paid and when, and their checking or savings account is debited on the day selected.

THIS BILL

This bill would require the Department of Technology Services, by January 1, 2008, to design and implement a statewide electronic payment system that would allow all state agencies to receive and make payments through electronic funds transfers, credit cards, debit cards, and automated clearinghouse debits and credits. The department would be negotiating on behalf of all state agencies for the best possible provider rates.

IMPLEMENTATION CONSIDERATIONS

The department has identified the following implementation concern. Department staff is available to work with the author's office to resolve these and other concerns that may be identified.

It is unclear whether the electronic payment processing system to be designed by the Department of Technology Services is intended to replace or augment any existing procedures currently in place at FTB. According to the author's staff, use of the system would be optional for state agencies, so an existing process could remain. It is recommended that express language to clarify this intent be added to the bill.

LEGISLATIVE HISTORY

SB 860 (Bowen 2005/2006) proposed to prevent state agencies or their agents from charging a fee for using a credit card unless the same fee is charged for use of a check or cash. The purpose of this bill was to provide an incentive for service providers to offer a more competitive fee rate. This bill was held in the Assembly Bank & Finance Committee.

OTHER STATES' INFORMATION

The laws of the states of *Florida, Illinois, Massachusetts, Michigan, Minnesota, and New York* were reviewed. These states were selected due to their similarities to California's economy, business entity types, and tax laws. All of these states accept payment by credit card and use intermediaries to assist in the processing of tax related transactions. *Minnesota* charges a convenience fee directly to the taxpayer and then remits that fee to the service provider. The other states' arrangements parallel the arrangement currently used by the department.

FISCAL IMPACT

To the extent that the system developed under this bill does not alter current procedures in place at FTB, there would be no impact to the department's programs or operations. If this bill would result in FTB absorbing financial transactions costs, the fiscal impact could be significant based on the volume of payments processed each tax season. Until clarification of how the new system is expected to augment or replace current procedures is obtained, the department is unable to estimate an accurate fiscal impact.

ECONOMIC IMPACT

Implementation of this bill would not impact the state's income tax revenues.

LEGISLATIVE STAFF CONTACT

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