

ANALYSIS OF ORIGINAL BILL

Franchise Tax Board

Author: Klehs Analyst: Rachel Coco Bill Number: AB 2439

Related Bills: See Legislative History Telephone: 845-4328 Introduced Date: February 23, 2006

Attorney: Patrick Kusiak Sponsor: _____

SUBJECT: Refund Splitting

SUMMARY

This bill would require the Franchise Tax Board (FTB) to allow taxpayers the option of splitting a tax refund made by direct deposit into more than one account.

PURPOSE OF THE BILL

According to the author's staff, the purpose of this bill is to make it easier for people to set money aside for retirement.

EFFECTIVE/OPERATIVE DATE

This bill would be effective and operative as of January 1, 2007.

POSITION

Pending.

ANALYSIS

FEDERAL/STATE LAW

Current federal and state tax laws provide taxpayers with the option of filing an electronic tax return or a paper tax return. In addition, both the IRS and FTB issue taxpayer refunds via direct deposit or check.

Beginning with the 2007 filing season, the IRS will make administrative changes that will allow taxpayers to designate that their tax refund be direct deposited into more than one account.

THIS BILL

This bill would require FTB to allow taxpayers who are individuals the option of splitting their direct deposit refund (DDR) into at least two parts for deposit into more than one account.

Board Position:	Department Director	Date
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_____ X PENDING		
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IMPLEMENTATION CONSIDERATIONS

Implementing this bill would require the department to modify existing tax forms and instruction booklets and make changes to the computer systems, which could be accomplished during normal annual updates, but could require additional funding as described below under Fiscal Impact.

PROGRAM BACKGROUND

DDRs allow a taxpayer to have their tax refund electronically deposited into their checking or savings account. For a taxpayer filing using a paper return, the form includes fields that require the taxpayer to provide FTB with their financial institution's routing transit number, their depositor account number, and whether the account is a checking or savings account. A taxpayer who files electronically and requests DDR generally receives their refund in five to seven banking days.

In 2005, the department issued 9.5 million refunds totaling \$7.3 billion. Three and a half million of those refunds were direct deposited for a total of \$3 billion. The average amount of a DDR in 2005 was \$859.

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.

A review of each state's tax forms showed that while all the states allowed DDR, none allowed for the designation of more than one account.

FISCAL IMPACT

Requiring the department to add fields for multiple routing numbers and other bank information to the returns would not significantly impact the department's costs.

The present forms have limited space available for additional lines. If these changes increase the forms from two to three pages, the department would incur costs of over \$2 million for revising the forms and instructions, printing, systems changes, processing, and storage.

ECONOMIC IMPACT

This bill would not impact the state's income tax revenue.

LEGISLATIVE STAFF CONTACT

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