

SUMMARY ANALYSIS OF AMENDED BILL

Author: Arambula Analyst: Darrine Distefano Bill Number: AB 2553
 Related Bills: See Prior Analysis Telephone: 845-4142 Amended Date: April 6, 2006
 Attorney: Patrick Kusiak Sponsor: _____

SUBJECT: California Air Quality Zones/Qualified Capital Expenditures Credit & Depreciation Deduction

- 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 INTRODUCED February 23, 2006 STILL APPLIES.
- OTHER – See comments below.

SUMMARY

This bill would provide income tax incentives for certain expenditures to create jobs and reduce pollution.

SUMMARY OF AMENDMENTS

The April 6, 2006, amendments add provisions relating to air quality zones.

The amendments do not impact the department’s programs or operations. However, the amendments impact the state’s income tax revenue. An updated economic impact is provided below. The remainder of the department’s analysis of this bill as introduced, February 23, 2006, still applies.

POSITION

Pending.

Board Position:	Legislative Director	Date
<input type="checkbox"/> S	Brian Putler	4/21/06
<input type="checkbox"/> SA		
<input type="checkbox"/> N		
<input checked="" type="checkbox"/> PENDING		
<input type="checkbox"/> NA		
<input type="checkbox"/> O		
<input type="checkbox"/> OUA		

ECONOMIC IMPACT

Revenue Estimate

The estimated revenue losses from this bill are as follows:

Estimated Revenue Impact of AB 2553			
10% tax credit and accelerated three year depreciation of			
qualified capital expenditures			
Effective Tax Years Beginning On or After 1/1/2007			
Assumed Enactment Date After 6/30/06			
(Millions)			
2005-06	2006-07	2007-08	2008-9
-\$0	-\$8	-\$38	-\$64

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

Revenue Discussion

The April 6th amendments add an additional restriction on qualifying air quality zones requiring a countywide poverty rate at least 50% higher than a statewide average for two of the three years preceding designation. This restriction reduces the original estimate from the February 23rd analysis.

For the legislative year 2005-06, the California Air Resources Board (ARB) had requested a \$1 billion bond be placed on the ballot as an incentive fund for the upgrading of equipment to meet air pollution regulations. The incentive was to be 10% of the cost of the equipment. The ARB estimated the total cost of the capital expenditures for all California businesses to be \$10 billion over 10 years or \$1 billion per year. This bill would provide a tax credit equal to 10% for the same capital expenditure. Based on the 2000 US Census poverty rate in California counties, it is estimated that only 10% of the capital expenditures, or \$100 million annually, would occur in qualifying air quality zones resulting in a revenue loss of \$10 million per year.

This bill would also allow a taxpayer to deduct depreciation for those qualified capital expenditures over a three year period instead of over a normal useful life of 3-20 years. By accelerating the depreciation of expenditures over three years, the changes in the depreciation schedule for the estimated \$100 million annual investment by businesses is estimated to reduce revenues by \$23 million the first year, \$37 million the second year, and \$57 million the third year.

Tax year estimates presented in the table above combine the credit and depreciation deduction and were converted to the cash-flow estimates. Cash flow estimates reflect the ability of some taxpayers to accelerate tax benefits by adjusting their estimated tax payments.

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