

SUMMARY ANALYSIS OF AMENDED BILL

Author: Arambula Analyst: Darrine Distefano Bill Number: AB 2567
 Related Bills: See Prior Analysis Telephone: 845-4142 Amended Date: May 2, 2006
 Attorney: Patrick Kusiak Sponsor: _____

SUBJECT: Renewable Technologies Research Expense Credit

- DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced February 23, 2006.
- 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 allow a research expense credit for specified research activities conducted within the state.

SUMMARY OF AMENDMENTS

The April 19, 2006, amendments require a taxpayer to reduce the amount of any deduction taken for research activities by the amount of the credit allowed.

The May 2, 2006, amendments add legislative intent language about renewable technology and revise the definition of several terms.

The May 2, 2006, amendments also resolve the department’s implementation and policy considerations of the bill as introduced February 23, 2006 and as amended April 19, 2006. As a result of the May 2nd amendments, the “This Bill” discussion as provided in the analysis of the bill as introduced February 23, 2006, has been revised and new “Implementation Considerations” have been identified. A new revenue estimate is also provided. The remainder of the department’s analysis of the bill as introduced February 23, 2006, still applies.

Board Position:	Legislative Director	Date
<input type="checkbox"/> S <input type="checkbox"/> NA <input type="checkbox"/> NP <input type="checkbox"/> SA <input type="checkbox"/> O <input type="checkbox"/> NAR <input type="checkbox"/> N <input type="checkbox"/> OUA <input checked="" type="checkbox"/> PENDING		

EFFECTIVE/OPERATIVE DATE

As a tax levy, this bill would be effective immediately upon enactment and, by its terms, operative for taxable years beginning on or after January 1, 2007, and before January 1, 2015.

POSITION

Pending.

ANALYSIS

THIS BILL

Under the Personal Income Tax Law (PITL) and the Corporation Tax Law (CTL), this bill would authorize a research credit equal to 20% for amounts paid or incurred for qualified research conducted within California by a qualified taxpayer.

This bill defines "qualified research" as research dedicated to the development of renewable technologies, including those that use biomass, solar, wind, and hydrogen technologies resulting in cleaner air and water, encourages the reuse of materials, and the reduction of greenhouse gas emissions.

This bill defines "qualified taxpayer" as a taxpayer whose total gross revenues from all sources does not exceed \$1 million for the taxable year. Gross revenues exclude any federal, state, or private research grants.

This bill would conform to the federal percentages of 2.65%, 3.2%, and 3.75% for the alternative incremental research portion of the current research expenses credit.

IMPLEMENTATION CONSIDERATIONS

This bill identifies a qualified taxpayer as a taxpayer with total "gross revenues" of \$1 million or less. The author may wish to use the term "gross receipts" instead of "gross revenues" to maintain consistency with the Revenue & Taxation Code and to alleviate confusion for the department and taxpayers.

This bill would exclude gross revenues received from federal, state, or private grants. It is recommended that the term "grants" be clarified. A taxpayer could receive a grant or contract that includes several phases such as conducting research and development, outreach and education, prototype demonstration, and commercialization that would be normally included as income.

ECONOMIC IMPACT

Revenue Estimate

This bill would result in the following revenue losses:

Estimated Revenue Impact of AB 2567 As amended May 2, 2006 Effective for tax years Beginning On or After 1/1/2007 Enacted by 6/1/2006 (\$ Millions)			
	2006-07	2007-08	2008-09
Higher R&D credit rate	a/	a/	a/

a/ Loss of less than \$150,000

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

Revenue Discussion

This bill is estimated to produce an insignificant revenue loss of less than \$150,000 annually. The exclusion of federal, state, and private research grants from the \$1 million total gross revenues limit increases the original estimate of the revenue loss slightly above the estimate presented in the February 23, 2006, analysis. Because the term "grants" lacks clarification, some taxpayers might exclude federal, state, and private research contracts instead of grants, and as a result, more taxpayers could claim this credit.

LEGISLATIVE STAFF CONTACT

Darrine Distefano
Franchise Tax Board
(916) 845-4142
darrine.distefano@ftb.ca.gov

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