Franchise Tax Board

SUMMARY ANALYSIS OF AMENDED BILL

Author:	Runner	Analyst:	Nicole Kwon	Bill Number:	AB 2589
Related Bills:	See Legislative History	Telephone:	845-7800	Amended Date:	April 17, 2006
		Attorney:	Patrick Kusiak	Sponsor:	

SUBJECT: Enterprise Zones/Qualified Wages Credit & Sales & Use Tax Credit

X DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced February 24, 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 ____________________.

X REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED February 24, 2006, STILL APPLIES.

____ OTHER – See comments below.

SUMMARY

This bill would revise the method for computing the credit utilization limitations on taxpayers conducting business in an enterprise zone (EZ).

SUMMARY OF AMENDMENTS

The April 17, 2006, amendments resolved the Technical Consideration from the department's prior analysis. The previous revenue estimate still applies and is included below for convenience. The remainder of the department's analysis of the bill as introduced February 24, 2006, still applies.

POSITION

Pending.

Board Position:			Legislative Director	Date
____ S	____ NA	____ NP		
____ SA	____ O	____ NAR	Brian Putler	4/27/06
____ N	____ OUA	X PENDING		

ECONOMIC IMPACT

Tax Revenue Estimate

Based on data and assumptions discussed below, this provision would result in the following revenue losses.

Estimated Revenue Impact of AB 2589 Effective for Tax Years BOA 1/1/2007 Assumed Enactment Date After 6/30/06		
	(Millions)	
2006/07	2007/08	2008/09
-$3	-$14	-$14

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

Tax Revenue Discussion

The revenue impact of this proposal is dependent on increased credit usage by taxpayers that operate within multiple EZs.

Corporate Impact:

For taxable year 2003, approximately 2,750 corporate taxpayers used $181 million in EZ credits. Three hundred of these corporate taxpayers operate within multiple EZs and used $113 million in credits. Taxpayers doing business in multiple EZ reported 62% of all EZ credits used. These corporate taxpayers also reported credit carryover balances of $160 million.

Broadening the credit limitation for corporate taxpayers that operate in multiple EZs for taxable years beginning on or after January 1, 2007, is assumed to increase credit usage by 10%. For taxable year ending 2007, current law credit usage is projected at $240 million. Sixty-two percent or $149 million ($240 million x 62%) represents the portion that would be used by corporate taxpayers that operate in multiple EZs. A 10% increase in usage by this group would result in $15 million ($149 million x 10%). This impact is reduced by 30% to $10 million to reflect only calendar year filers. The 2008 revenue loss of $17 million represents the first year that impacts both calendar and fiscal year filers.

Personal Income Tax Impact:

For taxable year 2003, approximately 4,000 personal income taxpayers used $80 million in EZ credits. Although the percentage of personal income taxpayers that operate in multiple EZs is unknown, the percentage is expected to resemble the proportion of S-corporations that operate in multiple EZs.

Broadening the credit limitation for personal income taxpayers that operate in multiple EZs for taxable years beginning on or after January 1, 2007, is anticipated to increase credit usage by 10%. For taxable year 2007, current law personal income tax credit usage is projected at $100 million. Of this amount, 17% or $17 million ($100 million x 17%) represents the portion that would be used by personal income taxpayers who operate in multiple EZs. A 10% increase in usage by this group would result in revenue losses of approximately $2 million ($17 million x 10%).

Combined Corporate and Personal Income Tax Revenue:

The combined revenue loss for taxable year 2007 is estimated to total $12 million ($10 million corporate + $2 million personal income tax). This amount represents an increase in the amount of credits applied in the current year. This increase is offset (starting in 2008) by the credits that, absent this bill, would have been used in subsequent years. That is, in 2008, additional credits used of $17 million for corporations plus $2 million for personal income taxpayers is offset (reduced) by $5 million to reflect credits applied in 2007 that would have otherwise been applied in 2008. The revenue presented in the chart above represents the cash flow fiscal year impact.

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