Franchise Tax Board **SUMMARY ANALYSIS OF AMENDED BILL**

Author: Nava | Analyst: Nicole Kwon | Bill Number: AB 2735

Related Bills: See Prior Analysis | Telephone: 845-7800 | Amended Date: April 20, 2006

Attorney: Patrick Kusiak | Sponsor:

SUBJECT: Disaster Loss Deduction/Excess Loss Carryover/Specified Counties/December 2005, January 2006, March 2006, Or April 2006 Rainstorms, Related Flooding & Slides & Any Other Related Casualties

____ DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended .

X 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 AMENDED March 27, 2006, STILL APPLIES.

____ OTHER – See comments below.

SUMMARY

This bill would allow taxpayers special tax treatment, called disaster loss treatment, for losses sustained as a result of the severe rainstorms and related events that occurred in the specified counties.

This analysis will not address the bill's changes to the Property Tax Law as they do not impact the department or state income tax revenue.

SUMMARY OF AMENDMENTS

The April 20, 2006, amendments made the revision for the following counties as eligible to receive disaster loss treatment as a result of the severe rainstorms and related events: Alameda, Alpine, Amador, Butte, Calaveras, Colusa, Contra Costa, El Dorado, Fresno, Kings, Lassen, Marin, Merced, Nevada, Placer, Plumas, Sacramento, San Joaquin, San Luis Obispo, San Mateo, Santa Cruz, Shasta, Sierra, Siskiyou, Solano, Sonoma, Stanislaus, Sutter, Tulare, Tuolumne, Yolo, and Yuba. Calaveras and Stanislaus are new to the list of counties eligible to

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receive disaster loss treatment as a result of the severe rainstorms and related events. The amendments also extended the disaster period by adding the month of March and April 2006 to the provisions.

As a result of the amendments, an Implementation Consideration and new revenue estimate is included below. The remainder of the department's analysis of the bill as amended March 27, 2006, still applies.

POSITION

Pending.

IMPLEMENTATION CONSIDERATION

Author's office may want to include double-jointing language in the event that proposed changes to the disaster loss treatment provisions contained in AB 1798 (Berg) is enacted before this bill is enacted**.**

ECONOMIC IMPACT

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

Estimated Revenue Impact of AB 2735 Effective for Tax Years BOA 1/1/2005 Assumed Immediate Enactment Date (Millions)		
2006/07	2007/08	2008/09
-$.5	-$.9	-$.6

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 bill is dependent on the dollar value of real and personal property losses. The loss for tax purposes is calculated as the lesser of the reduction in fair market value or the adjusted basis. This value is reduced by insurance reimbursements, $100 per incident, and 10% of adjusted gross income (AGI).

According to the Federal Emergency Management Agency (FEMA), private, public, and commercial damages are estimated to exceed $500 million statewide for the December 2005 and January 2006 rainstorms. This estimate assumes that total losses equal $400 million for the counties specified in this bill and that real and personal property damages account for 70% or $280 million.

It is estimated that 10% or $28 million of losses are uninsured and 90% or $252 million are insured. Because some insurance policies cover a fixed amount of damages rather than the fair market value, it is estimated that only 70% of damages would be reimbursed by an insurance policy. These adjustments result in combined uninsured real and personal property losses of $103 million [$28 million + ($252 million x 30%)]. These uninsured losses are reduced by $3 million to account for basis and AGI limitations, resulting in $100 million in possible deductions.

It is estimated that 50% or $ 50 million in deductions will be used during the year of the disaster and 5% or $5 million will never be reported and therefore will not impact this bill. Assuming an average marginal tax rate of 6% on the remaining $45 million ($100 million - $50million - $5million), the revenue loss from the recent storms would be approximately $2.7 million ($45 mil x 6%). If total losses are reported over a five-year period, the revenue impact for fiscal year 2006/2007 would total $0.5 million.

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