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: June 13, 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 .

____ 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 April 20, 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 June 13, 2006, amendments resolved the Implementation Consideration identified in the department's previous analysis of the bill by adding double-jointing language in the event that proposed changes to the disaster loss treatment provisions contained in AB 1798 (Berg) are enacted before this bill is enacted**.**

Board Position:			Legislative Director	Date
____ S	____ NA	____ NP		
____ SA	____ O	____ NAR	Brian Putler	6/26/06
____ N	____ OUA	_X_ PENDING		

The revenue estimate from the department's previous analysis is provided below for convenience. The remainder of the department's analysis of the bill as introduced February 24, 2006, still applies.

POSITION

Pending.

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 ($ in 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.

<u>Tax Revenue Discussion</u>

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 in deductions, 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 million x 6%). If total losses were reported over a five-year period, the revenue impact for fiscal year 2006/2007 would total $0.5 million.

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