

FTB administers the corporate franchise, corporate income, and administrative tax law provisions related thereto. California Revenue and Taxation Code (R&TC) section 19032 requires FTB to examine a return as soon as practicable after the return is filed to determine the correct amount of tax. FTB audits tax returns and assesses deficiencies. In performing these duties, FTB may examine relevant books and records and compel attendance and take testimony at hearings. FTB may request that an entity provide information or make available information relevant to ascertaining the correctness of a return.

THIS BILL

This bill would require FTB to ascertain the correctness of any return of a taxpayer subject to the CTL if both the following apply:

- The taxpayer's gross receipts for the taxable year were more than \$1 billion, and
- The taxpayer paid only the minimum franchise tax for the taxable year.

IMPLEMENTATION CONSIDERATIONS

Implementing this bill would not significantly impact the department's programs and operations.

LEGISLATIVE HISTORY

AB 1026 (Horton, 2005/2006) was identical to this bill. AB 1026 failed to pass out of the house of origin by the constitutional deadline.

OTHER STATES' INFORMATION

The states surveyed include *Florida, Illinois, Massachusetts, Michigan, Minnesota, and New York*. These states were selected due to their similarities to California's economy, business entity types, and tax laws. Each state has a department primarily responsible for administering the state revenue laws, including compliance with corporation income and franchise taxes; however, none of these states mandates specific audits.

FISCAL IMPACT

This bill would not significantly impact the department's costs.

ECONOMIC IMPACT

Revenue Estimate

This bill would not impact state income tax revenues.

Revenue Discussion

FTB audits large corporate taxpayers, such as those that would be affected by this bill, on a regular basis. Using the most current data, department staff identified less than 200 taxpayers as meeting the criteria provided under this bill for the 2004 tax year.

POLICY CONCERNS

Historically, the Legislature has avoided enacting laws pertaining to the audit selection process.

LEGISLATIVE STAFF CONTACT

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