

SUMMARY ANALYSIS OF AMENDED BILLAuthor: Ruskin and J. Horton Analyst: Norman Catelli Bill Number: AB 34Related Bills: See Prior Analysis Telephone: 845-5117 Amended Date: June 20, 2005Attorney: Patrick Kusiak Sponsor: _____**SUBJECT:** Water's-Edge Election/Corporations Headquartered, Incorporated, or Located in Tax Haven Country/LAO in Conjunction with FTB Study Jurisdictions Identified By OECD as Tax Havens

- DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as amended April 4, 2005.
- 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 AMENDED April 4, 2005, STILL APPLIES.
- OTHER – See comments below.

SUMMARY

This bill would require multinational corporations that elect to file tax returns based only on income earned inside the U.S., known as the water's-edge method, to include the income of related corporations in a tax haven country.

SUMMARY OF AMENDMENTS

The June 20, 2005, amendments include a legislative statement that the sheltering of income in offshore tax haven countries has been a major means of tax avoidance for multinational corporations.

In addition, the amendments:

- Changed the operative date of the bill from taxable years beginning on or after January 1, 2005, to taxable years beginning on or after January 1, 2006,
- Changed the due date of the study of tax haven jurisdictions from January 1, 2008, to January 1, 2010, and
- Granted Franchise Tax Board regulatory authority to determine whether a corporation has established a substantial economic presence in a tax haven country.

Board Position:

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 _____ N _____ OUA X PENDING

Legislative Director

Date

Brian Putler

7/08/2005

These amendments resolved all of FTB's implementation considerations identified in the department's analysis of the bill as amended April 4, 2005.

Except for the items below, the remainder of the department's analysis of the bill as amended April 4, 2005, still applies.

POSITION

Pending.

ECONOMIC IMPACT

Revenue Estimate

Projected revenue gains for this bill are shown in the table below:

Fiscal Year Cash Flow Impact of AB 34 As Amended June 20, 2005 Enactment Assumed After 6/30/05 Assumed Effective Tax Years BOA 1/1/06 (\$ Millions)		
2005-06	2006-07	2007-08
+\$2	+\$20	+\$40

Revenue Discussion

A provision of the June 20, 2005, amendments postpones the operative date of this bill to January 1, 2006. Since this bill no longer affects the 2005 tax year, there would be a reduction in overall revenue gains during the next three fiscal years. This effect is partially offset, especially in the third fiscal year, by revised assumptions about the speed with which taxpayers will adjust their estimated payments in response to this bill.

LEGISLATIVE STAFF CONTACT

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