Franchise Tax Board

SUMMARY ANALYSIS OF AMENDED BILL

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Bill Number: AB 485

Related Bills: See Prior Analysis
Telephone: 845-7800
Amended Date: August 7 & 10, 2006

Attorney: Patrick Kusiak
Sponsor: ____

SUBJECT: Economic Incentive Areas

____ 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 June 29, 2006, STILL APPLIES.

____ OTHER – See comments below.

SUMMARY

This bill would make various changes and reforms to existing law regarding Enterprise Zones, Manufacturing Enhancement Areas, Targeted Tax Areas, and Local Agency Military Base Recovery Areas.

This analysis addresses only those provisions of the bill affecting the Franchise Tax Board (FTB).

SUMMARY OF AMENDMENTS

The August 7 and 10, 2006, amendments deleted the provisions to expand the information FTB is required to make available to the Legislature annually. In addition, the amendments would allow the Department of Housing and Community Development (DHCD) to backdate the effective date of the new zone to the date of the previous zone's expiration in order to cover the gap period between expiration and designation and thereby continue to allow the zone to offer the tax incentives during the redesignation period. As a result of the amendments, a new revenue estimate is provided below. The remainder of the department's analysis of the bill as amended June 29, 2006, still applies.

Board Position:			Legislative Director	Date
____ S	____ NA	____ NP		
____ SA	____ O	____ NAR	Brian Putler	8/24/06
____ N	____ OUA	__X__ PENDING		

POSITION

Pending.

ECONOMIC IMPACT

Revenue Estimate

Based on data and assumptions discussed below, the Personal Income Tax and Corporation Tax revenue impact from this bill would be as follows:

Estimated Revenue Impact of AB 485 Effective On Or After January 1, 2007 Enactment Assumed After June 30, 2006 ($ in Millions)			
	2006-07	2007-08	2008-09
Targeted areas	-$6	-$7	--

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

Revenue Discussion

Twenty-three zones are scheduled to expire October 2006, through May 2007. For taxable year 2004, these zones claimed $140 million in Enterprise Zone (EZ) credits.

Under current law, it is assumed that the 23 zones scheduled to expire in 2006 and 2007 would be re-designated as EZs, on average, three months after the zone expiration date. It is estimated that after the zone is re-designated, the credit amounts used would be equal to the credit amounts reported during the year the zone expired, grown by the Department of Finance profit projections.

Under current law, taxpayers would not be allowed to generate credits for sales taxes paid or for wages paid to employees hired during the period between zone expiration and zone re-designation. This estimate assumes that under current law, three months of sales tax credits and three months of first-year wage credits would be lost. Under the provision of this bill, taxpayers would be allowed to generate credits during this gap period. This estimate assumes that, under this bill, taxpayers would generate the same credits that they would have generated if the EZs never expired. The revenue loss results from the difference between the credits that would be lost under current law during the gap period and the credits that, under this bill, would be allowed to be generated during the gap period. Finally, it was assumed that, under current law, there would be some increase, relative to a year in which the zone designations did not expire, in carryover credit usage due to the loss in generated credits. The net increase in credits used for the 2006 and 2007 liability year are then converted to reflect the fiscal years.

LEGISLATIVE STAFF CONTACT

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