ANALYSIS OF ORIGINAL BILL

Franchise Tax Board

Author:	Leno	Analyst:	Deborah Barrett	Bill Number:	AB 799
Related Bills:	See Legislative History	Telephone:	845-4301	Introduced Date:	02-18-05
		Attorney:	Patrick Kusiak	Sponsor:	

SUBJECT: Local Vehicle License Fee Deduction/FTB Report To Controller & San Francisco City & County Auditor Amount Of Revenue Loss & Costs Incurred By FTB

SUMMARY

This bill would require the Franchise Tax Board (FTB) to report the amount of revenue loss to the state as a result of increased itemized deductions taken by residents of the City and County of San Francisco for a local vehicle license fee.

This bill contains provisions for the imposition of a local vehicle license fee, which does not impact FTB and is not discussed in this analysis.

PURPOSE OF THE BILL

According to the author's staff, the purpose of this bill is to give the voters of San Francisco City and County options to increase funding for public services.

EFFECTIVE/OPERATIVE DATE

This bill would become effective and operative on January 1, 2006.

POSITION

Pending.

ANALYSIS

FEDERAL/STATE LAW

Current state law allows the state to impose a Vehicle License Fee (VLF) on its residents for the privilege of operating a vehicle on public highways. Currently, the fee is calculated at .65% of the market value of a vehicle and is assessed annually. Counties currently receive an allocation from the General Fund that represents the difference between the current VLF rate and the rate that was in place in 2003, when the Governor rolled back the VLF rate statewide.

Existing federal and state law allows individuals to deduct certain expenses, such as medical expenses, charitable contributions, interest, and state or local taxes paid as itemized deductions. The VLF imposed by a state or local entity is considered a personal property tax that can be deductible for individuals as a personal property tax on the federal Schedule A for itemized deductions. For business entities, the VLF can be deducted as a business expense for vehicles used in the business and is deducted against business income.

Board Position:			Department Director	Date
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THIS BILL

This bill would allow the City and County of San Francisco (county), upon voter approval, to impose a local vehicle license fee on residents of the county. It would allow the county to contract with the Department of Motor Vehicles (DMV) for the administration and collection of the local VLF.

This bill would require DMV, on a monthly basis, to provide to FTB a report including:

- Names,
- Addresses,
- Amount paid by each person or entity that paid the local VLF, and if available,
- The taxpayer identification number or social security number.

This bill would require that on or before January 1 of the third year after the tax is imposed, FTB must report to the auditor of the county and the Controller the following information.

1) The total amount of the revenue loss to the state for the prior year resulting from deductions taken under the Personal Income Tax Law (PITL) and the Corporation Tax Law (CTL) for taxes paid or incurred as a result of the local VLF being imposed, and
2) The total amount of costs incurred by FTB for determining and reporting the amount of revenue loss to the state.

This bill contains a provision for the county to reimburse the state for the revenue loss to the state as a result of the county's imposition of the VLF. This bill will require the auditor of the county to reduce the amount of the annual VLF adjustment received by the county from the state by: 1) the amount of the loss of state revenue reported by FTB, and, 2) the amount of costs attributed to complying with the reporting requirement by FTB.

IMPLEMENTATION CONSIDERATIONS

FTB has identified the following implementation concerns. Department staff is available to work with the author's office to resolve these and other concerns that may be identified.

It is unclear whether FTB would be required to verify if the amount taken as an itemized deduction or business expense by the taxpayer is the same amount paid by the taxpayer for the local VLF. Actual verification of the itemized deduction could incur substantial costs, since FTB does not capture the breakdown of itemized deductions on state tax returns that would identify the types of deductions taken by the taxpayer. State returns reflect the itemized deduction as a cumulative total based on calculations from the federal Schedule A less California adjustments required to comply with state law. In order to correctly report the amount of revenue loss to the state, FTB would be required to identify the amount of local VLF taken as a deduction or business expense on each California return. This would require changes to tax forms and booklets, changes to processing procedures, and changes to system programming. However, without actually reviewing the returns or explicitly identifying the amount of the local VLF claimed on each affected return, FTB would be unable to provide an accurate determination of revenue loss to the state.

This bill would require DMV to provide a monthly list of taxpayers that have paid the local VLF, including the taxpayer's identification number, if available. This list could assist FTB to identify who may have taken the deduction. However, since DMV does not collect identification numbers on their registration documents that match FTB system numbers (SSNs, corporation numbers, or Federal Employer Identification Numbers), there would be no taxpayer identification numbers available on these monthly lists. This would prevent an automated solution to identifying the applicable taxpayers and as noted above and require costly manual interventions to identify which taxpayers' returns to peruse to identify the itemized deductions taken. If this bill were to *require* DMV to provide taxpayer identification numbers on the monthly list, then an automated solution could be developed.

A data match on taxpayer name and address would not provide consistent results, as the addresses being compared could be different addresses. The address from DMV's files reflects residence or mailing addresses, while the addresses on the records of FTB could be the taxpayer's residential address, business address, or even the taxpayer's tax preparer's address.

This bill would require FTB to report the cost that was incurred for generating the revenue loss report and would reduce the amount allocated to the county for the state-imposed VLF by the amount of state revenue loss. However, there is no provision to reimburse FTB for the costs identified in providing the report.

TECHNICAL CONSIDERATIONS

This bill requires FTB to report the amount of revenue loss to the state and the cost incurred to report that information to the auditor of the county and the Controller. The bill is not clear whether reference to "Controller" is the State Controller or the controller of the City and County of San Francisco. The author needs to clarify to whom FTB is to report.

LEGISLATIVE HISTORY

AB 1690 (Leno, 2003/04) would have given FTB the authority to administer and collect a local income tax approved by the voters. This bill had provisions regarding public safety finance agencies and property taxes. AB 1690 was held in the Senate Appropriations Committee.

AB 1187 (Leno, 2003/2004) contained similar language to permit the City and County of San Francisco to impose, upon voter approval, a local vehicle license fee. AB 1187 failed passage out of the Assembly Appropriations Committee.

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. There does not appear to be any comparable statutes with respect to a local vehicle license fee in these states.

FISCAL IMPACT

FTB's costs to administer this bill cannot be determined until implementation concerns have been resolved, but are anticipated to be minor.

ECONOMIC IMPACT

Tax Revenue Impact

The estimate below describes the tax revenue impact from income tax deductions and reflects the approximate amount that would be needed to reimburse to the General Fund. This bill would require the General Fund to transfer less money as a result of the local VLF revenue to the county because of the tax revenue impact and FTB's administrative costs. Because of the timing of the report to the Controller, the General Fund would be reimbursed about a year behind that report.

Based on data and assumptions discussed below, this bill would result in the following income/franchise tax revenue losses.

Estimated Revenue Impact of AB 799 As Introduced 2/18/05 [$ In Millions]			
2005-06	2006-07	2007-08	2008-09
No impact	a/	-$4	-$3

a/ Loss of less than $150,000.

Estimates assume the ordinance is voter approved in November 2006 and is imposed beginning January 1, 2007. Based on this assumption, the proposed local fee would be deducted initially on the 2007 tax returns that are filed in 2008.

Tax Revenue Discussion

The revenue impact of this bill would be determined by the amount of additional VLFs deducted on tax returns and the tax rates of taxpayers deriving a tax deduction benefit.

As calculated, the amount of the local VLF fee would be equivalent to the current VLF offset. Using data available from the DMV with respect to fees paid for vehicle registrations in the county by vehicle type, the average VLF offset per vehicle type are projected as follows.

Vehicle Type	Projected Number of Vehicle Registrations in 2007	Average VLF Offset Per Vehicle in 2003
Autos	405,425	$156
Trucks	69,110	$135
Trailers	12,185	$89
Motorcycles	18,685	$71

Multiplying the number of vehicle registrations by the average VLF offset and summing the results derives a total local VLF of $74.9 million for the county.

[405,425 x $156 = $63.2 million]
[69,110 x $135 = 9.3 million]
[12,185 x $89 = 1.1 million]
[18,685 x $71 = 1.3 million]
Total Local VLF = $74.9 million

If 50% of the $74.9 million results in a tax deduction benefit to PITL and CTL taxpayers, applying a 7% tax rate derives an annual tax loss of approximately $3 million [$74.9 million x 50% x 7% = $2.6 million]. The number of fee-paid vehicle registrations grows at about 3% each year. Estimates assume the average VLF offset remains constant.

It is assumed that few taxpayers would adjust their estimated tax payments for this additional deduction in the year the fee is initially imposed. Therefore, the revenue loss for 2006-07 is projected to be less than $150,000. The $4 million loss for 2007-08 reflects the loss from 2007 and a portion of losses from 2008. The portion of losses from 2008 reflects taxpayers adjusting their estimated tax payments for the 2008 taxable year.

LEGISLATIVE STAFF CONTACT

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