

SUMMARY ANALYSIS OF AMENDED BILL

Franchise Tax Board

Author: Leno Analyst: Deborah Barrett Bill Number: AB 799

Related Bills: See Prior Analyses Telephone: 845-4301 Amended Date: 05-27-05

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

- DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced February 18,2005.
- 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 INTRODUCED February 18, 2005 STILL APPLIES.
- OTHER – See comments below.

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.

SUMMARY OF AMENDMENTS

The May 27, 2005, amendments require the contract between the City and County of San Francisco (County) and the Department of Motor Vehicles (DMV) to specify that the County is required to pay for the initial setup and programming costs identified by DMV. The amendments also direct DMV to transmit the fees collected to the Controller for deposit into the General Fund and to transmit to FTB the amounts identified as costs incurred by FTB to report the state revenue loss attributable to increased itemized deductions of the local vehicle license fee.

The May 27, 2005, amendments also require FTB to provide the reports required under this bill to DMV on or before January 1 of the second year that follows a year in which the tax is imposed.

The May 27, 2005, amendments resolved a technical concern and one implementation concern identified in the department’s previous analysis of the bill as introduced February 18, 2005. The remaining implementation concerns are restated below for convenience. Additionally, an analysis of the fiscal impact has been developed and is included below. The remainder of the department’s previous analysis still applies.

Board Position:

<input type="checkbox"/> S	<input type="checkbox"/> NA	<input type="checkbox"/> NP
<input type="checkbox"/> SA	<input type="checkbox"/> O	<input type="checkbox"/> NAR
<input type="checkbox"/> N	<input type="checkbox"/> OUA	<input checked="" type="checkbox"/> PENDING

Legislative Director

Date

Brian Putler

06/17/05

POSITION

Pending.

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 Vehicle License Fee (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. DMV does not currently 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 affected taxpayers and, as noted above, would 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.

An additional new concern with this bill has been identified by the department. Although DMV would be required to provide the list on a monthly basis, the department would not be able to use the list until after the returns for the calendar year have been processed. The department suggests revising the list to be an annual list, which would assist in reducing security risks relating to unused data and minimize processing costs for DMV.

FISCAL IMPACT

Based on the information provided by DMV, the department has identified two implementation schemes that may occur under the provisions of this bill

If DMV is able to provide the primary identifier needed for an automated match of taxpayers that take the local VLF deduction, the department estimates that the annual cost to determine the amount of revenue loss to the state resulting from the provisions of this bill would be approximately \$170,000.00. This amount includes the required programming, personnel, and equipment costs to develop data extraction and matching programs to provide the data this bill would require.

If DMV is unable to provide the primary identifier that could be utilized existing FTB systems, additional programming, personnel, and equipment costs would be required to determine the amount of revenue loss that would result from this bill. These costs are expected to be approximately \$300,000.00. Based on previous data matches of DMV data to FTB data where primary identifiers were not required, the department estimates that about 60% of the applicable taxpayers would be identified. That relatively low percentage of matches is due to the inaccuracies associated with name and address matches. Consequently, the department would be unable to identify 40% of the potential revenue loss to the state that would result from taxpayers taking the additional deduction on state returns.

LEGISLATIVE STAFF CONTACT

Deborah Barrett
Franchise Tax Board
(916) 845-4301
deborah.barrett@ftb.ca.gov

Brian Putler
Franchise Tax Board
(916) 845-6333
brian.putler@ftb.ca.gov