

SUMMARY ANALYSIS OF AMENDED BILL

Author: Leno Analyst: Deborah Barrett Bill Number: AB 799
 Related Bills: See Prior Analysis Telephone: 845-4301 Amended Date: August 22, 2006
 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/amended _____.
- 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 August 22, 2006, amendments changed the operative date of the ordinance that must be approved by voters and impacts the revenue estimate provided in the department’s analysis of the bill as introduced February 18, 2005. The “Effective/Operative Date” and “Economic Impact” portions of the analysis have been revised. The remainder of the department’s analysis as introduced February 18, 2005, still applies.

EFFECTIVE/OPERATIVE DATE

This bill would become effective January 1, 2007, and would require a majority of residents of the City and County of San Francisco to approve an ordinance passed by the Board of Supervisors

Board Position:	Legislative Director	Date
<input type="checkbox"/> S	Brian Putler	8/31/06
<input type="checkbox"/> SA		
<input type="checkbox"/> N		
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<input checked="" type="checkbox"/> PENDING		

imposing the fee. If the voters approve this bill's provisions between January 1 and June 30, the first January 1 following the election would be the operative date. If the voters approve the ordinance between July 1 and December 31, the ordinance would be operative on the first July 1 after the election.

POSITION

Pending.

ECONOMIC IMPACT

Tax Revenue Estimate

The estimate below describes the tax revenue impact from income tax deductions, which would be the approximate amount that would need to be reimbursed to the General Fund. This bill would require the General Fund to transfer the local VLF revenue, less the estimated annual tax revenue loss and the FTB's administrative costs, to the City and County of San Francisco. Because of the timing of the report to the Controller, the General Fund would be reimbursed about a year after 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 Amended 8/22/06 [\$ In Millions]		
2006-07	2007-08	2008-09
no impact	-\$2	-\$3

As introduced, estimates assumed voter approval in November 2006, and that the local fee would begin January 1, 2007. Based on the August 22, 2006, amendments, estimates assume the fee is imposed beginning July 1, 2007. Based on this assumption, the proposed local fee would begin to be deducted 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 vehicle license fees 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. Data was obtained from the Department of Motor Vehicles (DMV) indicating the number of vehicle registrations in San Francisco County and the average VLF offset statewide for 2004. The table below shows the number of vehicle registrations projected to 2007 and the average VLF offset per vehicle type. Multiplying the number of vehicle registrations by the average VLF offset and summing the results derives a total local VLF of \$77.5 million for San Francisco City and County.

Projected Number of Vehicles

Vehicle Type	Registrations in 2007	Average VLF Offset per Vehicle in 2003	Total local VLF (in millions)
Autos	405,425	\$160	\$64.9
Trucks	69,110	\$143	\$9.9
Trailers	12,185	\$104	\$1.3
Motocycles	18,685	\$79	\$1.5
Total Local VLF			\$77.5

There is no revenue impact for the 2006-07 fiscal year as it is assumed the fee is imposed beginning July 1, 2007. The calculated \$77.5 million is the total local VLF if it were imposed for all of 2007. It is assumed that half of the \$77.5 million, or \$38.8 million, is paid during the second half of 2007. If 50% of the \$38.8 million results in a tax deduction benefit to PITL and CTL taxpayers, applying a 7% tax rate derives a tax loss for 2007 of approximately \$1.4 million ($\$77.5 \text{ million} \times 1/2 \times 50\% \times 7\% = \1.4 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. The \$2 million loss for 2008-09 reflects the loss from 2007 and a portion of losses from 2008. The portion of losses from 2008 reflects some taxpayers adjusting their estimated tax payments for the 2008 taxable year.

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