Franchise Tax Board

ANALYSIS OF AMENDED BILL

Author:	Ridley-Thomas	Analyst:	Nicole Kwon	Bill Number:	AB 912
Related Bills:	See Legislative History	Telephone:	845-7800	Amended Date:	January 4, 2006
		Attorney:	Patrick Kusiak	Sponsor:	

SUBJECT:	California Disaster Credit

SUMMARY

This bill would allow a credit to taxpayers who provide housing to individuals displaced by a federally declared disaster.

PURPOSE OF THE BILL

According to the author's office, the intent of this bill is to encourage taxpayers to provide housing to individuals displaced by any federally declared disaster.

EFFECTIVE/OPERATIVE DATE

As a tax levy, this bill would be effective immediately and operative for taxable years beginning on or after January 1, 2005.

POSITION

Pending.

ANALYSIS

FEDERAL/STATE LAW

Generally under federal law, in order to determine taxable income an individual reduces adjusted gross income by any personal and dependent exemptions and either the standard deduction or their itemized deductions. For 2005, the amount deductible for each personal exemption is $3,200 and the standard deduction for single or married filing separately is $5,000. These amounts are indexed annually for inflation.

Under state law, rather than an exemption deduction, taxpayers are allowed an exemption credit for themselves and each of their dependents. For 2005, the exemption credit amount for other than dependents is $87. The amount of the dependent exemption credit for 2005 is $272.

Board Position:			Department Director	Date
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Existing federal and state laws provide various tax credits that may be used to reduce the taxpayer's tax liability on a dollar-for-dollar basis. One state tax policy benefit of allowing tax credits rather than deductions is that tax credits are claimed after taxable income has been calculated.

Katrina Emergency Tax Relief Act of 2005, Public Law (PL) 109-73, enacted September 23, 2005, among other things, allows a taxpayer an additional dependent exemption of $500 for each Hurricane Katrina displaced individual for whom the taxpayer provided free housing, up to a maximum of four individuals. Thus, the maximum additional exemption amount is $2,000. The exemption with respect to any Hurricane Katrina displaced individual may only be claimed one time, irrespective of taxable years.

Under federal and state law, a disaster loss occurs when property is destroyed as a result of a fire, storm, flood, or other natural event in an area proclaimed to be a disaster by the President of the United States or, for state law purposes, by the Governor.

THIS BILL

This bill would allow a credit to taxpayers who provide housing to individuals displaced by any federally declared disaster. This bill would provide the following:

- An area would need to be declared a federal disaster on or after August 28, 2005.
- Housing would have to be provided by the taxpayer to a qualified federal disaster displaced individual for the taxable year.
- The housing would need to be, or have been, provided for a period of 60 consecutive days within the taxable year.
- A credit of $500 per displaced individual, with a lifetime maximum of $2,000 per taxpayer, would be allowed.
- A taxpayer would be able to carry forward any unused credit for 5 years.
- The credit will be in effect until taxable years beginning on or after January 1, 2010, and will be repealed January 1, 2011.

This bill would define the term "qualified federal disaster" as a disaster loss in accordance with the Internal Revenue Code Section 165 (i) on or after August 28, 2005.

This bill would also define the term "qualified federal disaster displaced individual" as an individual who is either a Hurricane Katrina displaced individual or an individual whose principal place of abode on or after August 28, 2005, is located in a qualified federal disaster area and that principal place of abode was either damaged by the disaster or the individual was evacuated from that abode by reason of the disaster.

IMPLEMENTATION CONSIDERATIONS

Implementing this bill would require some changes to existing tax forms and instructions and information systems, which could be accomplished during the normal annual update.

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, population, and tax laws. Florida does not impose an income tax on individuals. The other states surveyed have not yet enacted statutes that specifically address the new federal tax relief provisions related to the Hurricane Katrina.

FISCAL IMPACT

This bill would not significantly impact the department's costs.

ECONOMIC IMPACT

Revenue Estimate

Based on data and assumptions discussed below, this provision would result in the following revenue losses.

Estimated Revenue Impact of AB 912 Effective for Tax Years BOA 1/1/2005 Assumed Enactment Date After 1/1/06		
	(Millions)	
2005/06	2006/07	2007/08
-$5	-$2	-$2

Tax Revenue Discussion

The revenue impact of this provision is dependent upon a number of factors: the number of annual federally-declared disasters, the number of homes deemed as uninhabitable, the amount of insured homes with plans that cover temporary housing costs, and the number of individuals that would opt to stay with a family versus an alternative.

Based on a sample of federally declared California disasters during a 20-year period, the average annual number of uninhabitable homes damaged or destroyed was approximately 3,500.

In an average year 60% of the 3,500 uninhabitable homes would qualify for insurance sponsored temporary housing assistance resulting in 1,400 (3,500 x 1-60%) homes without housing assistance. Based on an average three-member household, a total of 4,200 (1,400 x 3) individuals could be qualified individuals under this bill. Of these individuals, it is estimated that 60% or 2,520 individuals would be offered and would accept free housing. Applying the $500 per person credit to each individual, total annual revenue losses would approximate $1.3 million.

Actual credit usage in any particular year is dependent on the number and severity of disasters in that year and could be substantially higher or lower than this average.

Due to Hurricane Katrina, 2005 was an above average year for the number of housing units made uninhabitable by disasters. For calendar year 2005, based on information provided by the California Office of Emergency Services on the displaced Katrina individuals that relocated to California, it is estimated that 17,000 individuals would satisfy the definition of a "qualified federal disaster displaced individual" and generate tax credits in the amount of $8.5 million (17,000 x $500). This estimate assumes that 60% of this amount will be used in taxable year 2005, with the remaining amount carried forward. The estimate tables presented above includes the impact due to Hurricane Katrina for 2005 and assumes that 2006 and 2007 will be average years.

POLICY CONSIDERATION

This credit would not be limited to taxpayers or displaced individuals who reside in California or to disasters that occur in California.

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