Franchise Tax Board

SUMMARY ANALYSIS OF AMENDED BILL

Author:	Ducheny and Machado	Analyst:	Nicole Kwon	Bill Number:	SB 1008
Related Bills:	See Prior Analysis	Telephone:	845-7800	Amended Date:	June 14, 2006
		Attorney:	Patrick Kusiak	Sponsor:	

SUBJECT: Geographically Targeted Economic Development Area/Enterprise Zone, Manufacturing Enhancement Area, Targeted Tax Area & LAMBRA Hiring Credit/NOL Deduction & Business Expense Deduction

_____ 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 January 19, 2006, STILL APPLIES.

_____ OTHER – See comments below.

SUMMARY

This bill would make various changes and reforms to existing law regarding Enterprise Zones (EZs), Manufacturing Enhancement Areas (MEAs), a Targeted Tax Area (TTA), and Local Agency Military Base Recovery Areas (LAMBRAs).

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

SUMMARY OF AMENDMENTS

The June 14, 2006, amendments would make the revisions to the law applicable to the following Economic Development Areas (EDAs):

A. Hiring Credit.
B. Providing Information to the Legislature.

Each item is discussed separately below.

Board Position:			Legislative Director	Date
_______ S	_______ NA	_______ NP		
_______ SA	_______ O	_______ NAR	Brian Putler	8/22/06
_______ N	_______ OUA	___X___ PENDING		

POSITION

Pending.

A. Hiring Credit

The June 14, 2006, amendments would do the following:

- Repeal the existing hiring credit for taxpayers operating in individual EDAs on January 1, 2007, and revise the credit under "geographically targeted economic development area" beginning on January 1, 2007.
- Define "geographically targeted economic development area (G-TEDA)" to mean areas designated as EZs, MEAs, TTAs, and LAMBRAs.
- Revise the definition of qualified employees to include an individual with a prior felony conviction, rather than all ex-felons.
- Add a "qualified former foster care recipient" to the list of qualified employees for the hiring credit. A "qualified former foster care recipient" would mean an individual who is certified by the local designated agency to have met both of the following: (1) attained age 17 but not age 25 on the hiring date, and (2) before attaining the age of 18, has been either a recipient of foster care maintenance payments under a state plan approved under the Social Security Act or in foster care under the responsibility of a state.

As a result of the amendments, new Implementation Considerations, a Technical Consideration, and a Revenue Estimate are identified and provided below. The remainder of the department's analysis of the bill as amended January 19, 2006, still applies.

IMPLEMENTATION CONSIDERATIONS

This bill would raise the following implementation considerations.

This bill would allow the Department of Housing and Community Development (DHCD), based on a review and determination of completed applications, to issue a letter of preliminary designation of G-TEDA. The designation of the G-TEDA is deemed to be final upon the signing of the memorandum of understanding by DHCD and the government entities that represent the G-TEDA. It is unclear when the tax incentives are available for taxpayers to use. Therefore, the department would need to assume that the tax incentives generally available are available for taxpayers to use following the preliminary designation of G-TEDA. If this assumption is inconsistent with the author's intent, the author's office may want to clarify the language.

The term "G-TEDA coordinator" is undefined in this bill. It is assumed that "G-TEDA coordinator" is the person who administers all the rules and regulations of G-TEDA. If this assumption is inconsistent with the author's intent, the author's office may want to define this term or specify by cross reference the section of the law if it is already defined.

This bill would require a qualified former foster care recipient to be certified by the local designated agency. Currently, the taxpayer is required to obtain a voucher certificate for each of its “qualified employees.” The voucher certificates are issued by the Employment Development Department or the local (within the same EDA as the workplace of the employee) agency familiar with the public assistance statutes. The author’s office may want to remove the provision that would require a qualified former foster care recipient to be certified by the local designated agency because there are already identified agencies issuing certification for “qualified employees” under the statute. If the author’s intention is to designate an agency other than the ones already provided under the statute, then it is suggested that the agency be designated in the bill.

TECHNICAL CONSIDERATION

On page 17, line 7, the word "of” should be inserted between "memorandum" and "understanding".

ECONOMIC IMPACT

Revenue Estimate

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

Estimated Revenue Impact of AB 2709 Effective On Or After January 1, 2007 Enactment Assumed After June 30, 2006 ($ in Millions)			
	2006-07	2007-08	2008-09
Former Foster Care Recipients	-$4	-$6	-$5

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

Revenue Discussion

Based on data from the Department of Social Services, about 48,000 people in California aged 17 through 24 are former foster care recipients (an increase of about 6,000 individuals from the 18 through 24 age group). This estimate assumes that 67% of the former foster care recipients are employed. Statewide, about 6% of employees work for taxpayers claiming EZ credits. This estimate assumes that the same proportion (6%) of former foster care recipients work for employers claiming EZ credits. It is also assumed that 50% of the workers qualified under this provision are already being claimed by their employer under other EZ criteria. Thus, the number of new EZ credits generated by this bill would be approximately 960 (48,000 x 2/3 x 6% x 50% = 960).

Assuming an average of about $6,000 in hiring credits per qualified employee per year, the addition of former foster care recipients would cause an increase in credits of about $6 million a year (960 x $6,000). The estimate assumes that after this new category of worker is created, taxpayers will adjust their behavior by hiring 20% more of these workers. It is assumed that about 60% of credits earned will be applied in the year they are generated, and the rest will be carried forward. Estimates presented in the table above have been adjusted to reflect fiscal year impacts.

This estimate assumes that the number of people who received foster care outside of California, then moved to California, is equal to the number of California foster care recipients that have moved out of state.

B. Providing Information to the Legislature

The June 14, 2006, amendments would expand the information FTB is required to make available annually to the Legislature to include LAMBRAs, MEAs, and TTAs. FTB would also add the length of employment of vouchered employees with the information FTB is required to make available annually to the Legislature.

As a result of the amendments, a new State Law, an estimate of the Fiscal Impact of the provisions of this bill, and a Revenue Estimate are identified and provided below. In addition, suggested amendments to provide for an appropriation to cover the department's costs are provided.

STATE LAW

Under the Government Code, existing state law requires the FTB to provide information annually to the Legislature regarding the number of businesses using the EZ tax incentives, the types of EZ tax incentives being used, and the EZs in which the businesses are claiming the tax incentives.

Summary of Suggested Amendments

Amendment 1 is provided to suggest appropriation language to fund the department's costs.

FISCAL IMPACT

This bill would require the development of an additional form to be sent with the return, also impacting departmental printing, processing and storage costs. In addition, implementing this bill would require purchase of new equipment, require system and application reprogramming and testing. The department estimates first year implementation costs of $690,619 with ongoing operating costs of $493,063 annually to administer the provisions of this bill. Amendment 1 is provided to suggest appropriation language to fund the department's costs.

ECONOMIC IMPACT

This portion of the bill is not anticipated to impact significantly the amount of revenue.

LEGISLATIVE STAFF CONTACT

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FRANCHISE TAX BOARD'S
PROPOSED AMENDMENTS TO SB 1008
As Amended June 14, 2006

AMENDMENT 1

On page 151, after line 9, insert:

SEC. 41. The sum of six hundred ninety thousand six hundred nineteen dollars ($690,619) is hereby appropriated to the Franchise Tax Board in augmentation of its support budget (item of the Governor Budget- Chap __, Statutes of_____).