

SUMMARY ANALYSIS OF AMENDED BILL

Franchise Tax Board

Author: Kehoe Analyst: Nicole Kwon Bill Number: SB 457

Related Bills: See Prior Analysis Telephone: 845-7800 Amended Date: March 29, 2005

Attorney: Patrick Kusiak Sponsor: _____

SUBJECT: Disaster Loss Deduction/Excess Loss Carryover/Kern, Los Angeles, Orange, Riverside, San Bernardino, San Diego, & Santa Barbara County Severe Rainstorms, Related Flooding, Slides, & Other Events

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 DEPARTMENT'S 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 allow taxpayers special tax treatment, called disaster loss treatment, for losses sustained as a result of the severe rainstorms and related events that occurred in Kern, Los Angeles, Orange, Riverside, San Bernardino, San Diego, Santa Barbara, and Ventura Counties.

SUMMARY OF AMENDMENTS

The March 29, 2005, amendments resolved the policy concern identified in the department's analysis of the bill as introduced February 18, 2005, by adding Ventura to the list of impacted counties. The amendments also added a coauthor to the bill. A revised revenue estimate is included below. The remainder of the department's analysis of the bill as introduced February 18, 2005, still applies.

POSITION

Pending.

Board Position:

____ S ____ NA ____ NP
____ SA ____ O ____ NAR
____ N ____ OUA PENDING

Legislative Director

Date

Brian Putler

4/11/05

ECONOMIC IMPACT

Revenue Estimate

Based on the discussion below, the revenue loss from this bill is as follows:

Estimated Revenue Impact of SB 457 As Amended March 29, 2005		
Assumed Immediate Enactment Date		
Fiscal Year Impact		
2005-06	2006-07	2007-08
a /	a /	a /

a/ Loss of less than \$150,000

Revenue Discussion

The impact of this bill would be determined by disaster losses due to personal property damages reported as a deduction in future years. Business property losses do not impact revenues since current law provides carryover loss provisions. Once the total amounts of possible deductions are quantified the average marginal tax rate is used to determine the revenue impact.

Preliminary data compiled by each county and submitted for state/federal assistance was obtained from The California Office of Emergency Services Department. Since counties are facing challenges in gathering private damage information, weighted averages for each county was calculated according to the preliminary data.

Ventura County was the only county able to provide a current and reasonable estimate of \$75 million in private damages. Since current data for each county is not readily available, Ventura County's portion of private damages is adjusted by its weighted average of 37% to reflect total damages of all eight counties. Therefore, the estimate is based on \$203 million ($\$75 \text{ million} \div 37\%$) in property damages.

Based on the preliminary data for all counties, on average, business losses represent 30% or \$60 million ($\$203 \text{ million} \times 30\%$) of total losses. This portion would not impact revenues.

The remaining 70% is attributable to personal property losses, resulting in approximately \$142 million ($\$203 \text{ million} \times 70\%$) for personal income taxpayers.

Of the \$142 million in total personal income tax losses, it is estimated that 90% of personal losses are insured. Therefore, uninsured losses are estimated to be \$14.2 million ($\$142 \text{ million} \times 10\%$).

It is estimated that basis limitations would reduce losses for tax purposes by 1.5% of total personal income tax losses to \$12.1 million ($\$14.2 \text{ million} - (\$142 \text{ million} \times 1.5\%) = \$2.1 \text{ million}) = \$12.1 \text{ million}$). Qualifying losses must further be reduced to reflect adjusted gross income limitations. It is estimated that this limitation represents 1.5% of total personal income tax losses and would reduce the applicable losses to \$10 million ($\$12.1 \text{ million} - (\$142 \text{ million} \times 1.5\%) = \$2.1 \text{ million}) = \$10 \text{ million}$).

Total losses of \$10 million may be used in the year prior to the disaster, the year of the disaster, or carried forward to future years. It is estimated that 33% would be used during the year of the disaster and 5% would never be utilized. The other 62%, or \$6.2 million ($\$10 \text{ million} \times 62\% = \6.2 million), would be carried forward and allowed for use in future years. Assuming an average marginal tax rate of 6%, this bill's total revenue loss approximates \$372,000 ($\$6.2 \text{ million} \times 6\% = \$372,000$). If total losses of \$372,000 were carried forward and utilized over a three-year period, the revenue impact would be deemed as insignificant or less than \$150,000.

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