Franchise Tax Board

SUMMARY ANALYSIS OF AMENDED BILL

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

Related Bills: See Prior Analysis | Telephone: 845-7800 | Amended Date: July 11, 2005

Attorney: Patrick Kusiak | Sponsor: ______

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

_____ 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 ____________________.

__X__ REMAINDER OF PREVIOUS ANALYSIS OF BILL AS AMENDED March 29, 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 during the period from December 2004 through March 2005.

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

SUMMARY OF AMENDMENTS

The July 11, 2005, amendments extended the disaster period for losses sustained as a result of the severe rainstorms and related events that occurred in the above counties by adding February and March 2005 to the provisions. According to the author's staff, these amendments were needed after Governor Schwarzenegger expanded the proclamation of disaster to include the months of February and March 2005. The amendments also made minor technical changes. According to county officials affected by the Southern California storms, extending the incident period is not anticipated to have any additional material affect on private personal property losses. Based on this information, the previous revenue estimate still applies and is included below for convenience. The remainder of the department's analysis of the bill as amended March 29, 2005, still applies.

Board Position:			Legislative Director	Date
_____ S	_____ NA	_____ NP		
_____ SA	_____ O	_____ NAR	Brian Putler	07/25/2005
_____ N	_____ OUA	__X__ PENDING		

POSITION

Pending.

ECONOMIC IMPACT

Revenue Estimate

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

Estimated Revenue Impact of SB 457 Amended July 11, 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 million ÷ 37%) in property damages.

Based on the preliminary data for all counties, on average, business losses represent 30% or $60 million ($203 million x 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 million x 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 million x 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 million - ($142 million x 1.5% = $2.1 million) = $12.1million). 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 million – ($142 million x 1.5%= $2.1 million) = $10 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 million x 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 million x 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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