Franchise Tax Board

ANALYSIS OF AMENDED BILL

Author:	Leno	Analyst:	Deborah Barrett	Bill Number:	AB 1590
Related Bills:	See Legislative History	Telephone:	845-4301	Amended Date:	April 18, 2007
		Attorney:	Patrick Kusiak	Sponsor:	

SUBJECT: Voter Approved Local Assessment Deduction/FTB Report To Department of Motor Vehicles Amount Of Revenue Loss & Costs Incurred By FTB

SUMMARY

This bill would require the Franchise Tax Board (FTB) to report to the Department of Motor Vehicles (DMV) the estimated revenue loss as a result of deductions taken by residents of the City and County of San Francisco (County) for a local assessment.

This bill also contains provisions for the imposition of a voter approved local assessment, which do not impact FTB and are not discussed in this analysis.

SUMMARY OF AMENDMENTS

The April 10, 2007, amendments deleted spot bill language and added language that would establish a local vehicle license fee for the County. The April 18, 2007, amendments made non-substantive technical changes revising the term “local vehicle license fee” to “voter approved local assessment”.

This is the department’s first analysis of this bill.

PURPOSE OF THE BILL

According to the author’s staff, the purpose of this bill is to give the voters of County options to increase funding for public services.

EFFECTIVE/OPERATIVE DATE

This bill would become effective January 1, 2008, and would require a majority of residents of the and County to approve an ordinance passed by the Board of Supervisors imposing the assessment. If the election in which the ordinance receives voter approval occurs between January 1st and June 30th, the bill would be operative on the first January 1st that follows that election. If the election in which the ordinance receives voter approval occurs between July 1st and December 31st, the bill would be operative on the first July 1st that follows the election.

POSITION

Pending.

Board Position:			Department Director	Date
_______ S	_______ NA	_______ NP		
_______ SA	_______ O	_______ NAR	Selvi Stanislaus	4/26/07
_______ N	_______ OUA	___X___ PENDING		

ANALYSIS

STATE LAW

Current state law allows the state to impose a Vehicle License Fee (VLF) on its residents for the privilege of operating a vehicle on public highways. Currently, the fee is calculated at .65% of the market value of a vehicle and is assessed annually. Counties currently receive an allocation from the General Fund that represents the difference between the current VLF rate and the rate that was in place in 2003, when the Governor rolled back the VLF rate statewide.

Existing federal and state law allows individuals to deduct certain expenses, such as medical expenses, charitable contributions, interest, and state or local taxes paid as itemized deductions. The VLF imposed by a state or local entity is considered a personal property tax that can be deductible for individuals as a personal property tax on the federal Schedule A for itemized deductions. For business entities, the VLF can be deducted as a business expense for vehicles used in the business.

THIS BILL

This bill would allow the County, upon voter approval, to impose a voter approved local assessment (assessment) on residents of the County. It would allow the County to contract with the DMV for the administration and collection of the assessment. This bill would require the contract between the County and the DMV to specify that the County is required to pay for the initial setup and programming costs identified by the DMV. The bill also requires the DMV to transmit an amount equal to the revenue loss to the state from the assessments collected for deposit into the General Fund and to transmit to the FTB the amounts identified as costs incurred by the FTB in preparing the required report.

This bill would require DMV, on an annual basis, to report to FTB the following:

- Names of persons paying the assessment,
- Addresses of those persons,
- Amount paid by each person or entity that paid the assessment, and
- The taxpayer identification number or social security number of each such person.

This bill would require that on or before January 1 of the second year after the tax is imposed, FTB must report to DMV the following information.

1) An estimate of the revenue loss to the state for the prior year resulting from deductions taken under the Personal Income Tax Law (PITL) and the Corporation Tax Law (CTL) for taxes paid or incurred as a result of the assessment, and
2) The total amount of costs incurred by FTB for determining and reporting the amount of revenue loss to the state.

IMPLEMENTATION CONSIDERATIONS

Implementing this bill would not significantly impact the department's programs or operations.

LEGISLATIVE HISTORY

AB 799 (Leno, 2005/2006) would have required the FTB to report the estimated amount of revenue loss to the state as a result of increased itemized deductions taken by residents of the County for a local VLF. This bill was vetoed by Governor Schwarzenegger. In his veto message, the Governor stated, "Although this bill requires voter approval, it impacts only one county. In addition, the revenues generated by this bill would not be directed to projects related to vehicles but used to bolster the city's general fund. This is an unfair burden to place solely on the shoulders of motorists."

AB 1208 (Yee, 2005) would have imposed an additional VLF on the residents of the County for the purpose of funding maintenance and improvement of roads. This fee would be a flat fee per registered vehicle. This bill was vetoed by Governor Schwarzenegger. In his veto message the Governor stated, "While the goal of the program to increase funds for transportation infrastructure is laudable and vitally needed, I do not believe these fees should continue to be added without the approval from the people upon whom the fee is imposed."

AB 1690 (Leno, 2003/04) would have given FTB the authority to administer and collect a local income tax approved by the voters. This bill had provisions regarding public safety finance agencies and property taxes. AB 1690 was held in the Senate Appropriations Committee.

AB 1187 (Leno, 2003/2004) contained similar language that would have permitted the County to impose, upon voter approval, a local vehicle license fee. AB 1187 failed passage out of the Assembly Appropriations Committee.

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, and tax laws. There does not appear to be any comparable statutes with respect to a local vehicle license fee in these states.

FISCAL IMPACT

The provisions of this bill would require the department to do the following:

- Match the list of impacted taxpayers provided by DMV against tax returns filed by the same taxpayers to identify which taxpayers itemized their deductions,
- Identify the applicable tax rates of those that itemized their deductions,
- Determine how much the amount of tax paid was reduced by the assessment deducted from those income tax returns, and
- Develop a reporting mechanism to provide the data required by this bill to DMV.

Based on the information provided by DMV, the department has identified two implementation schemes that may occur under the provisions of this bill

If DMV is able to provide the primary identifier needed for an automated match of taxpayers that take the assessment deduction, the department estimates that the annual cost to determine the amount of revenue loss to the state resulting from the provisions of this bill would be approximately $170,000. This amount includes the required programming, personnel, and equipment costs to develop data extraction and matching programs to provide the data this bill would require.

If DMV is unable to provide the primary identifier that could be utilized existing FTB systems, additional programming, personnel, and equipment costs would be required to determine the amount of revenue loss that would result from this bill. These costs are expected to be approximately $300,000. Based on previous data matches of DMV data to FTB data where primary identifiers were not required, the department estimates that about 60% of the applicable taxpayers would be identified. That relatively low percentage of matches is due to the inaccuracies associated with name and address matches. Consequently, the department would be unable to identify 40% of the potential revenue loss to the state that would result from taxpayers taking the additional deduction on state returns.

ECONOMIC IMPACT

Based on data and assumptions discussed below, this bill would result in the following income/franchise tax revenue losses:

Estimated Revenue Impact of AB 1590 As Amended 4/18/07 ($ in Millions)		
2007-08	2008-09	2009-10
No impact	-$1	-$4

Estimates assume the assessment is imposed beginning January 1, 2009. Based on this assumption, the proposed assessment would begin to be deducted on the 2009 tax returns that are filed in 2010.

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 assessment would be equivalent to the current VLF offset. Using the number of vehicle registrations in the County and the average VLF offset statewide for 2004, the average VLF offset per vehicle type is projected to 2009 and is shown in the table below.

Vehicle Type	Projected Number of Vehicle Registrations in 2009	Average VLF Offset Per Vehicle in 2009	Total Local VLF In Millions
Autos	430,115	$182	$78.3
Trucks	73,315	$191	$14.0
Trailers	12,925	$227	$2.9
Motorcycles	19,820	$135	$2.7
Total local assessment			$97.9

As the assessment is assumed imposed beginning January 1, 2009, there is no revenue impact for the 2007-08 fiscal year. The calculated $97.9 million is the total assessment if it were imposed for all of 2009. If 50% of the $97.9 million results in a tax deduction benefit to PITL and CTL taxpayers, applying a 7% tax rate derives a tax loss for 2009 of approximately $3.4 million ($97.9 million x 50% x 7% = $3.4 million). The number of fee-paid vehicle registrations grows at about 3% each year. The average VLF offset is grown annually by the actual rate of increase from 2003 to 2004 for each vehicle type.

It is assumed that few taxpayers would adjust their estimated tax payments for this additional deduction in the year the assessment is initially imposed. The $1 million loss for 2008-09 reflects only a portion of losses from 2009.

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