

REVISED ANALYSIS

Author: Ma Analyst: Gail Hall Bill Number: AB 1591
 Related Bills: See Legislative History Telephone: 845-6111 Original Analysis Date: June 14, 2007
 Attorney: Tommy Leung Sponsor: _____

SUBJECT: Business Income Apportionment/Members Of Apportioning Trade Or Business May Elect To Utilize One Of The Alternative Formulas

REVENUE ESTIMATE CHANGED.
 FURTHER CONCERNS IDENTIFIED.
 REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED/AMENDED STILL APPLIES.
 OTHER – See comments below.

SUMMARY OF BILL

This bill would provide new rules for corporations to assign income to California.

SUMMARY OF REVISION

The “ECONOMIC IMPACT” discussion in the department’s analysis of the bill as amended June 14, 2007, has been revised. The revision reflects an updated estimate of the year to year growth that would be achieved by corporations that elect to apportion business income under either Alternative No. 1 or 2. The remainder of the department’s analysis of the bill as amended June 14, 2007, still applies.

REVISED ECONOMIC IMPACT

Revised Revenue Estimate

This bill would result in the following revenue losses:

Estimated Revenue Impact of AB 1591 Effective for tax years BOA 1/1/2008 Enacted after 6/1/2007			
2007-08	2008-09	2009-10	2010-11
-\$100 Million	-\$450 Million	-\$1.0 Billion	-\$1.25 Billion

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

Board Position:	Legislative Director	Date
<input type="checkbox"/> S <input type="checkbox"/> NA <input type="checkbox"/> NP <input type="checkbox"/> SA <input type="checkbox"/> O <input type="checkbox"/> NAR <input type="checkbox"/> N <input type="checkbox"/> OUA <input checked="" type="checkbox"/> PENDING	Brian Putler	6/28/07

Revised Revenue Discussion

First, the tax amounts resulting from the two alternative formulas were simulated using samples of corporate tax returns for the tax years 2003, 2004, and 2005. The simulations accounted for the taxpayers' specific financial situation as reported on their tax returns and the changes in the taxpayers' behaviors in later years as they develop tax minimization strategies regarding the provisions of this bill. These tax amounts were compared with the tax amount calculated under current law. It was assumed that a taxpayer would choose the apportionment formula that yields the lowest tax. The revenue impact of this bill for the 2005 tax year was estimated as the average amount of tax reduction of these tax years.

Next, the estimated 2005 revenue impact was extrapolated to future years. This extrapolation took into account the growth of the taxpayers' income, and the fact that both apportionment Alternative No. 1 (hyper-weighting of sales) and Alternative No. 2 (incremental property and payroll) are accumulated each year. It was assumed that the taxpayers' income would grow at the same growth rate as corporate profit as forecasted by the Department of Finance. For the 2008 tax year, the revenue loss from this bill was estimated at \$450 million.

Finally, the tax year estimates were converted to fiscal year estimates shown in the table. For example, the 2008-09 cash flow estimate of a revenue loss of \$450 million includes a \$175 million loss from the 2008 tax year, plus \$275 million loss from the 2009 tax year due to higher credit usage and reduced estimated tax payments.

REPLACED ECONOMIC IMPACT

Replaced Revenue Estimate

Replaced Estimated Revenue Impact of AB 1591 Effective for tax years BOA 1/1/2008 Enacted after 6/1/2007			
2007-08	2008-09	2009-10	2010-11
-\$100 Million	-\$450 Million	-\$1.1 Billion	-\$1.6 Billion

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