SUMMARY ANALYSIS OF AMENDED BILL

Franchise Tax Board

Author:	Laird	Analyst:	William Koch	Bill Number:	AB 2930
Related Bills:	See Prior Analysis	Telephone:	845-4372	Amended Date:	May 6, 2008
		Attorney:	Patrick Kusiak	Sponsor:	

SUBJECT: Natural Heritage Preservation Tax Credit- Extend Indefinitely

____ 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 DEPARTMENT'S 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 April 2, 2008, STILL APPLIES.

____ OTHER – See comments below.

SUMMARY

This bill would do the following:

- Extend the Natural Heritage Preservation (NHP) tax credit indefinitely, and
- Allow the Wildlife Conservation Board (WCB) to award the NHP tax credit without monetary limit, as specified.

SUMMARY OF AMENDMENTS

The May 6, 2008, amendments would require a local government that applies directly to the WCB for acceptance of a qualified donation to transfer funds to the WCB for deposit into the Natural Heritage Preservation Tax Credit Reimbursement Account (NHPTCRA) prior to receiving final approval of the NHP tax credit. The amendments would also make a non-substantive technical change.

Except for the "This Bill" and "Revenue Discussion" sections in this analysis, the remainder of the department's analysis of this bill as amended April 2, 2008, still applies.

Board Position:			Asst. Legislative Director	Date
____ S	____ NA	____ NP		
____ SA	____ O	____ NAR	Patrice Gau-Johnson	5/9/08
____ N	____ OUA	__X__ PENDING		

THIS BILL

This bill would remove the June 30, 2008, sunset date of the NHP tax credit. This would allow the WCB to award the NHP tax credits indefinitely. This bill would also remove the current NHP tax credit award limit of $100 million, which would allow the WCB to award the credit without monetary limit.

The award of the NHP tax credits would continue to be contingent on the General Fund (GF) being reimbursed for all lost revenue resulting from the award of the NHP tax credits.

This bill would specify that if a local government applies directly to the WCB for acceptance of a qualified donation they would be required to transfer the full amount of the NHP tax credit to the WCB for deposit in the NHPTCRA prior to final approval of the NHP tax credit. The NHPTCRA is within the GF.

For all other NHP tax credits approved by the WCB, the GF would be reimbursed after a taxpayer files a tax return and the Franchise Tax Board provides the WCB with the amount of the tax credits claimed during that year for each qualified contribution.

ECONOMIC IMPACT

Revenue Estimate

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

Estimated Revenue Impact of AB 2930 Assumed Effective For Tax Years Beginning On or After January 1, 2008 Enactment Assumed After June 30, 2008 ($ in Millions)				
	2008-09	2009-10	2010-11	2011-12
Income Tax Funds	-$3.0	-$7.0	-$7.0	-$7.0
Local Gov't NHPTCRA Transfers	+$1.3	+$3.0	+$3.0	+$3.0
WCB Initiated Transfers	+$0.3	+$2.2	+$4.0	+$4.0
Net Impact to GF	-$1.4	-$1.8	$0	$0

The losses to the GF in fiscal years 2008-09 and 2009-10 are due to delays in cash transfers to reimburse the GF. See the Revenue Discussion below for additional explanation.

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

Revenue Discussion

The revenue impact of this bill would depend on the fair market value of land donated for credits and the amount of credits that can be applied to reduce tax liabilities.

The WCB reports that $48.6 million in NHP tax credits have been awarded to date. Actual credits claimed on tax returns total $23.4 million from fiscal years 2001-02 through 2006-07, an average of approximately $4 million annually.

Income Tax Fund Impact

This bill would allow local governments to submit completed applications directly to the WCB for approval. It is anticipated that this change will result in more credits being awarded, approximately $7 million annually. It is assumed that this bill would be effective for tax years beginning January 1, 2008. The 2008-09 income tax fund loss of $3 million reflects the last six months of the fiscal year because under current law the WCB may not award the NHP tax credit after June 30, 2008.

Local Government NHPTCRA Transfers

Local governments that apply directly to the WCB would be required to reimburse the NHPTCRA for the full amount of the tax credit prior to final approval of the NHP tax credit. The amount of local reimbursement would be 43% ($3 million of the $7 million) of the annual estimate of the tax credits claimed. Therefore, the revenue loss to the income tax funds would be offset by local government payments of $1.3 million, $3 million, $3 million, and $3 million in fiscal years 2008-09, 2009-10, 2010-11, and 2011-12, respectively.

WCB Initiated Transfers

The estimate of WCB initiated transfers represents the amounts expected to be reimbursed to the GF after a taxpayer files an income tax return and claims a NHP tax credit. As indicated above, the NHPTCRA would be reimbursed for 43% of the annual NHP tax credits in advance of the credits being claimed on an income tax return. Due to the delays in cash transfers to GF, it is assumed the GF would be reimbursed approximately 20% of the remaining 57% (100% -43%) of annual NHP tax credits claimed in the fiscal year claimed on an income tax return. The GF would be reimbursed for the remaining 80% in the fiscal year following the year the credit was claimed on an income tax return. The calculation for the WCB initiated transfer to the GF for 2008-09 is approximately $300,000 ($3 million loss to income tax funds x 57% x 20% ≈ $300,000). For 2009-10, the computation for the WCB initiated transfer is approximately $2.2 million ($7 million loss to income tax funds x 57% x 20% + $1.4 million[1] ≈ $2.2 million). The same calculation would apply for 2010-11 and 2011-12.

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[1] The remaining 80% of the 2008-09 unreimbursed credits.