

SUMMARY ANALYSIS OF AMENDED BILL

Author: Nava, et al. Analyst: Angela Raygoza Bill Number: AB 62
 Related Bills: See Prior Analysis Telephone: 845-7814 Amended Date: August 27, 2007
 Attorney: Douglas Powers Sponsor: _____

SUBJECT: Disaster Loss Deduction/Excess Loss Carryover/2006 Ventura County Wildfires/ 2007 El Dorado, Santa Barbara, and Ventura County Wildfires

- 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 _____.
- REMAINDER OF PREVIOUS ANALYSIS OF BILL AS AMENDED
- July 3, 2007, 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 wildfires that occurred in Ventura, El Dorado, and Santa Barbara Counties.

SUMMARY OF AMENDMENTS

The August 27, 2007, amendments added the Santa Barbara and Ventura wildfires that occurred during 2007, known as the Zaca Wildfire, to the list of specified disasters.

This analysis does not address the bill's changes to the Property Tax Law, as they do not impact the department or state income tax revenue. As a result of the amendments, the "This Bill" and "Revenue Impact" discussions, as provided in the department's analysis of the bill as amended July 3, 2007, have been revised. The remainder of that analysis still applies.

Board Position:	Legislative Director	Date
<input type="checkbox"/> S	Anne Mazur	09/06/07
<input type="checkbox"/> NA		
<input type="checkbox"/> NP		
<input type="checkbox"/> SA		
<input type="checkbox"/> N		
<input type="checkbox"/> OUA		
<input checked="" type="checkbox"/> PENDING		

POSITION

On September 5, 2007, the Franchise Tax Board voted 2-0 to support this bill, as amended August 27, 2007, with the representative from Department of Finance abstaining.

ANALYSIS

THIS BILL

This bill would add the wildfires that occurred in Ventura County in 2006 and in El Dorado, Santa Barbara, and Ventura Counties during 2007 to the current list of specified disasters under the Personal Income Tax Law and the Corporation Tax Law.

This bill would allow special disaster treatment of losses sustained as a result of those wildfires. Specifically, because the President has not proclaimed a disaster for any of these fires, this bill would allow a taxpayer to elect to claim the loss either in the year the loss occurred or in the year preceding the loss. If a taxpayer elects to take the loss in the preceding year, this bill would allow the taxpayer to file an amended return immediately for the prior year.

This bill also contains triple-jointing language that would incorporate provisions from SB 38 (Battin) and SB 114 (Florez). Those bills would allow taxpayers affected by the wildfires that occurred in Riverside County in 2006 or by the freeze of 2007 disaster loss treatment for their losses.

ECONOMIC IMPACT

Revenue Estimate

Based on data and assumptions discussed below, the revenue impact from this bill would be as follows:

Revenue Analysis for AB 62 – August 27, 2007 Operative for Tax Year BOA 1/1/2005 (\$ are rounded)					
Disaster Relief	2005-06	2006-07	2007-08	2008-09	Cumulative Impact
Ventura County (2006)	Loss < \$150,000	Gain < \$150,000	Gain < \$150,000	Gain < \$150,000	Loss < \$150,000
El Dorado County (2007)	None	Loss < \$1M	Gain < \$250,000	Gain < \$250,000	Loss < \$500,000
Santa Barbara & Ventura Counties (2007)-	None	None	None	None	None

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

Revenue Discussion

2006 Ventura County Fire

Information from the California Department of Fire shows an estimated \$1.6 million of real property losses for Ventura County. Assuming 20% of such damages would NOT be reimbursed by insurance, but would exceed the 10% adjusted gross income (AGI) threshold, an estimated \$330,000 of otherwise classified casualty loss deductions would be subject to special treatment as disaster losses ($\$1.6 \text{ million} \times 20\% = \$330,000$). If only half of such casualty losses were reported on 2006 tax year returns AND all excess amounts were deducted as disaster losses on an amended 2005 tax return, roughly \$10,000 in accelerated tax refunds would result ($\$330,000 \text{ deductions} \times 50\% \text{ deductions applied to 2005 tax year} \times 6\% \text{ tax rate} = \$10,000 \text{ revenue loss}$).

The insignificant revenue gains in the later years are a matter of timing. Taxpayers that choose to file an amended return to report the casualty loss immediately will have a higher tax liability in the subsequent taxable years.

2007 El Dorado County Fire

Information from El Dorado county officials and the California Department of Forestry & Fire Protection along with assumptions about the impacted population, including insurance coverage and the taxability of income, shows total structural damages to be \$142 million. Assuming 20% of those damages would NOT be reimbursed by insurance and would exceed the 10% AGI threshold, roughly \$28 million of otherwise classified casualty loss deductions would be subject to special treatment as disaster losses ($\$142 \text{ million} \times 20\% = \28 million). This estimate assumes half of the targeted fire casualty losses are reported in the year the event occurred and the remaining 50% are deducted as disaster losses on an amended tax return, an estimated \$1 million in accelerated refunds would result ($\$28 \text{ million} \times 50\% \text{ deductions applied to preceding tax year} \times 6\% \text{ tax rate} = \$852,000 \text{ revenue loss}$).

The insignificant revenue gains in the later years are a matter of timing. Taxpayers that choose to file an amended return to report the casualty loss immediately will have a higher tax liability in the subsequent taxable years.

2007 Santa Barbara/Ventura County Fire

Information from the California Department of Forestry and Fire Protection indicates 100% of the Zaca Wildfire has been contained as of September 4, 2007. Reports indicate that 240,207 acres of Los Padres National Forest was burned and one uninhabited personal property shed was destroyed. As a result, the Zaca Wildfire is unlikely to result in a disaster loss election, and therefore would not impact state tax revenue.

LEGISLATIVE STAFF CONTACT

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