

**SUMMARY ANALYSIS OF AMENDED BILL**

Author: Parra Analyst: Jennifer Bettencourt Bill Number: AB 831  
 Related Bills: See Prior Analysis Telephone: 845-5163 Amended Date: April 17, 2007  
 Attorney: Pat Kusiak Sponsor: \_\_\_\_\_

**SUBJECT:** Tax Expenditures Report/DOF Review All Tax Expenditures That Exceed \$5 Million & Provide Annual Report To Legislature

- 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 THE BILL AS AMENDED
- March 26, 2007, STILL APPLIES.
- OTHER – See comments below.

**SUMMARY**

This bill would require the Department of Finance (DOF) to review tax expenditures for effectiveness and provide recommendations to the Legislature.

**SUMMARY OF AMENDMENTS**

The April 17, 2007, amendments added language to further specify the required information that would be required to be included in the annual report. As a result of these amendments, the department has identified an implementation consideration. The “This Bill,” “Implementation Considerations,” and “Fiscal Impact” discussions have been revised. The remainder of the department’s analysis of this bill as amended March 26, 2007, still applies.

**THIS BILL**

This bill would require DOF to provide an annual report to the Legislature on all tax expenditures that exceed \$5 million per calendar year that are in existence on or after January 1, 2008.

Board Position:	Legislative Director	Date
<input type="checkbox"/> S	Brian Putler	5/11/07
<input type="checkbox"/> NA		
<input type="checkbox"/> SA		
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<input type="checkbox"/> NP		
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<input type="checkbox"/> NAR		
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This bill would also require DOF to review 10% of the tax expenditure programs or mechanisms on or before July 1, 2008, and 10% on or before July 1 of each succeeding calendar year for the succeeding nine years. A review of all tax expenditures would need to be completed by July 1, 2017.

This bill would require the review to include all of the following:

- The statutory authority, sunset date, and description of the beneficiaries for each credit, deduction, exclusion, exemption, or any other tax benefit as provided by state law.
- A description of the legislative intent for each tax expenditure, if expressed or specified.
- An estimate for the state and local revenue loss for the current fiscal year and two subsequent fiscal years, including partial years for sales and use tax purposes.
- The number of taxpayers and business entities affected and number of returns filed for personal income tax expenditures, corporation tax, and sales and use tax expenditures, if applicable.
- A list of any comparable federal tax benefits, if any.
- A description of any tax expenditure evaluation completed by any state agency since the last annual report.
- An evaluation of the benefits of each tax expenditure relating to the revenue losses.
- A recommendation to the Legislature about how to modify or repeal each tax expenditure.

In addition, this bill would require for any legislative measure on or after January 1, 2008, that creates a new or extends the operation of any existing tax expenditure to include all of the following:

- A legislative finding and declaration of the purposes to be served,
- An estimate of the revenue losses,
- A methodology for measuring the state's return on the investment, including performance criteria that establish minimum benefits and maximum costs for retaining each tax expenditure,
- A repeal of the expenditure no later than five years after the effective date of the measure.

This bill would define "tax expenditure" as a credit, deduction, exclusion, exemption, or any other tax benefit as provided by state law.

## BACKGROUND

Franchise Tax Board (FTB) provides a revenue estimate as part of a bill analysis for each legislative measure that would impact the department. Often the revenue estimate is revised as the bill is amended while moving through the legislative process. FTB also provides an annual tax expenditures report to DOF.

### IMPLEMENTATION CONSIDERATIONS

The department would be responsible for providing data to DOF so that DOF could meet the requirements of this bill. This requirement could create an additional workload that would require additional research and reports for the department.

### **FISCAL IMPACT**

The department's costs to administer this bill have not been determined at this time. As the bill continues to move through the legislative process, costs will be identified and an appropriation will be requested.

### **LEGISLATIVE STAFF CONTACT**

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