Franchise Tax Board

SUMMARY ANALYSIS OF AMENDED BILL

Author: Anderson | Analyst: Jennifer Bettencourt | Bill Number: AB 944

Related Bills: See Prior Analysis | Telephone: 845-4301 | Amended Date: May 14, 2007

Attorney: Patrick Kusiak | Sponsor: ____

SUBJECT: Exemption/First $10,000 Of Qualified Income Of Qualified Member Of The California National Guard

____ DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced February 22, 2007.

_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 ____________________.

_X_ FURTHER AMENDMENTS NECESSARY.

____ DEPARTMENT POSITION CHANGED TO ____________________.

_X_ REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED February 22, 2007, STILL APPLIES.

_X_ OTHER – See comments below.

SUMMARY

This bill would exempt from tax a portion of federal or state pay received by qualified members of the California National Guard.

SUMMARY OF AMENDMENTS

The May 14, 2007, amendments reduced the exemption amount from $50,000 to $10,000, and revised definitions for “qualified income” and “qualified member.” As a result of these amendments, the department has identified additional implementation considerations. The “This Bill,” “Implementation Considerations,” and “Economic Impact” discussions have been revised. The remainder of the department’s analysis of this bill as introduced February 22, 2007, still applies.

POSITION

Pending.

Board Position:			Legislative Director	Date
____ S	____ NA	____ NP		
____ SA	____ O	____ NAR	Brian Putler	6/27/07
____ N	____ OUA	_X_ PENDING		

THIS BILL

This bill would exempt the first $10,000 of qualified income of a qualified member from personal income tax.

This bill defines the following terms:

- "Qualified income" means federal or state pay that is not currently exempt from tax.
- "Qualified member" means a member of the California National Guard who is in an active drill status.

IMPLEMENTATION CONSIDERATIONS

The department has identified the following implementation concerns. Department staff is available to work with the author's office to resolve these and other concerns that may be identified.

This bill defines "qualified income" to include federal or state pay that is not currently exempt from tax. This definition is broad and would allow an exemption for any federal or state pay, including civilian pay. If the intent of the author is to provide the exemption to military or active duty pay, it is suggested that the bill be amended to clarify that intent.

This bill uses the term "active drill status," which is undefined. The absence of a definition for this term could lead to disputes with taxpayers and complicate the administration of this exemption.

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 944 As Amended 5/14/07 ($ in Millions)		
2007-08	2008-09	2009-10
-$5	-$5	-$5

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 be determined by the amount of qualified income of qualified members that would be exempt under this bill that would otherwise be taxable and the marginal tax rate of those taxpayers. This bill would allow an exclusion of $10,000 for any federal or state pay earned by a member of the California National Guard, which would also include federal or state civilian pay.

Currently, there are approximately 20,000 California National Guard members. For the estimate, it was assumed that all 20,000 members would qualify for some amount of income exclusion. This estimate assumes 15,000 members would qualify for an exclusion of $5,000, while the remaining 5,000 members would qualify for an exclusion of $10,000. This results in approximately $125 million [(15,000 x $5,000) + (5,000 x $10,000)] that would be excluded from taxation.

Applying a 4% marginal tax rate to the amount of excluded income would result in a revenue loss of $5 million ($125 million x 4% marginal tax rate).

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